PRESIDENT'S FISCAL YEAR 2010 BUDGET OVERVIEW

HEARING

BEFORE THE

COMMITTEE ON WAYS AND MEANS U.S. HOUSE OF REPRESENTATIVES

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WEDNESDAY, MARCH 4, 2009

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The Committee met, pursuant to notice, at 2:00 p.m., in room 1100, Longworth House Office Building, Hon. Charles B. Rangel (Chairman of the Committee) presiding.

[The advisory announcing the hearing follows:]

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

FOR IMMEDIATE RELEASE
February 25, 2009
FC–3

CONTACT: (202) 225–5522

Chairman Rangel Announces a Hearing on the President's Fiscal Year 2010 Budget Overview with OMB Director Peter R. Orszag

House Ways and Means Committee Chairman Charles B. Rangel today announced the Committee will hold a hearing on the overview of President Obama's budget proposals for fiscal year 2010. **The hearing will take place on Wednesday, March 4, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 2:00 p.m.**

In view of the limited time available to hear witnesses, oral testimony at this hearing will be limited to the invited witness, the Honorable Peter R. Orszag, Director of the Office of Management and Budget. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

FOCUS OF THE HEARING:

On February 26, 2009, President Barack Obama will submit an overview of his fiscal year 2010 budget to Congress. The budget overview will detail his Administration's tax and spending proposals for the coming year, many of which fall under the jurisdiction of the Committee on Ways and Means.

In announcing the hearing, Chairman Rangel said, **"Director Orszag has testified before the Committee on numerous occasions in other capacities. I have enjoyed hearing from and working with him in the past and look forward to his testimony. This year's budget will provide an important roadmap as Congress works, on a bipartisan basis, with the President to develop new fiscal policies to address the challenges facing American families."**

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, *http://waysandmeans.house.gov*, select "*111th Congress*" from the menu entitled, "*Committee Hearings*" (*http://waysandmeans.house.gov/Hearings.asp?congress=19*). Select the hearing for which you would like to submit, and click on the link entitled, "*Click here to provide a submission for the record*." Once you have followed the online instructions, complete all informational forms and click "submit" on the final page. ***ATTACH*** your submission as a Word or WordPerfect document, in compliance with the formatting requirements listed below, by close of business **Wednesday, March 18, 2009**. **Finally**, please note that due to the change in House mail policy, the U.S. Capitol Police will refuse sealed-package deliveries to all House Office Buildings. For questions, or if you encounter technical problems, please call (202) 225–1721.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee.

The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any supplementary materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission or supplementary item not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All submissions and supplementary materials must be provided in Word or WordPerfect format and MUST NOT exceed a total of 10 pages, including attachments. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. All submissions must include a list of all clients, persons, and/or organizations on whose behalf the witness appears. A supplemental sheet must accompany each submission listing the name, company, address, telephone and fax numbers of each witness.

Note: All Committee advisories and news releases are available on the World Wide Web at *http://waysandmeans.house.gov*.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202–225–1721 or 202–226–3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Chairman RANGEL. The Committee will come to order, as we have the opportunity to review and ask questions of the President's budget.

And most of you know Peter Orszag, who has served with us as Director of the Congressional Budget Office. And he has the experience, the background. And, from what I have seen of his performance in the Budget Committee, not intimidated but willing to give you an honest answer and, also, to take criticism where Members on either side think that is warranted, or even if it is not warranted.

Having said that, I want to welcome you, Mr. Orszag, and thank you first for your willingness to serve your Congress and your country at a time when we have one of the most serious problems in our Nation's history. And we know that you, like so many other people, have options, but your country and your President needed you, and I wanted to thank you and your family for being willing to help us to negotiate out of this very serious problem that we face.

Quite frankly, I find it difficult for me to find any criticism, but, indeed, a lot of political courage for the President to actually say that he is willing to have the country know that war is hell. It is not just a question of losing lives and careers, but also we should at least have the political courage to say how much does it cost and to put this in the budget, as you have done.

We have treated the alternative minimum tax and paying doctors an appropriate reimbursement as though these expenses were never in the budget. And the President has put these things in the budget, and we have to have the political courage to wrestle with it and to get rid of this debt.

It just seemed to me that, on the question of a strong America, even as it relates to our National security, that no Nation that ignores the health needs of its poor and aged or fails to educate our children so that they can have a better than average chance to succeed in terms of trade and our presence internationally—and then, of course, anybody will tell you that, in terms of climate control, a complex, expensive pioneer type of venture that we can't run away from if we want to maintain our position of leadership in the world, especially among developing countries, that they depend on the United States, whether they want to talk about it or not.

So, these things—nothing is free. You have to have a budget. Someone has to pay for it. And I wouldn't think about taxing the rich, as so many people might suggest. It just seems to me that a nation has to be guided by what is right and moral for the majority of its people. And as long as you convince me that 95 percent of working people are going to get a tax cut, it is going to be very hard for me to believe that this is not the equitable way to go.

In any event, it is not going to be easy. And we want to cooperate and get the input of the minority because I, for one, know and care for them enough to know that they are not just here to complain, they want to be a part of the solution.

And even if we don't get as much as we wish we would have, again, I would say to you, as I said to the Secretary yesterday, this is a Committee who would want to be known for what it has attempted to do even if we can't achieve all of our goals. And we all will admit that we can disagree without being disagreeable.

And I am just so pleased that I will have the opportunity of working with David Camp for what is good for the Committee, what is good for the Congress, and what is good for the country. And we don't have Republican answers or Democratic answers, but you don't have to worry about us competing against you. It will be us trying to convince you that we think we have a better way.

With that said, I welcome the opening statement of my friend, David Camp.

Mr. CAMP. Well, thank you, Mr. Chairman. Thank you for those remarks. We trying to find American solutions to these problems. And I very much appreciate your comments and appreciate you yielding.

Mr. Director, as I noted yesterday with Secretary Geithner, your budget places a new $646 billion energy tax on the American people. Or, at least that is the most your budget admitted to in plain type. Upon closer inspection, I found that footnote 3 to Table S–2 in the President's budget states that they are assumed revenues beyond the $646 billion. So much for a return to honest budgeting.

Honesty is the best policy, and the American people should know what is included in the Federal budget. However, telling only half the story, as you have done, is not the same as being honest.

I trust you are aware that when you were heading the Congressional Budget Office you scored the Lieberman-Warner bill limiting CO_2 emissions as raising nearly $1 trillion. And that legislation had less ambitious emission targets and did not auction 100 percent of allowances, as the President proposes to do.

How much revenue beyond the initial $646 billion do you really expect the American public to pay? How much of a burden will you put on American employers and job creators to raise these new moneys? And why is the true cost of this tax hidden from the public and the media?

Beyond this new massive tax, I hope we can get the chance to talk about the President's approach to health care reform. Per-capita health care spending in the U.S. is already twice as high as the spending rates in Canada and two and a half times higher than those in the United Kingdom.

While health care is expensive, the issue is not that we aren't spending enough today, it is that we are spending it inefficiently. Yet the President's budget proposes a $634 billion, quote, "health reform reserve fund" to serve as a partial downpayment. First and foremost, I worry that you have confused increased spending with real reform that delivers enhanced care. Second, half of this money will come from a massive tax increase, the rest from drastic changes in Medicare and Medicaid.

But yet, again, you have not told the whole story to the American public. If $634 billion is a downpayment, what is the full cost, and why is that number not in this budget. Given that most estimates place the cost of your health reform plans at more than $1 trillion, I assume you have hidden somewhere another $400 billion in tax increases and Medicare cuts you will be sharing with this Committee.

Mr. Director, to honor the passing this week of Paul Harvey, I hope you will tell this Committee and the American public the rest of the story.

And, with that, I yield back the balance of my time.

Chairman RANGEL. I hope you don't have to go to Paul to get the answer. But I am glad that these questions have been raised, because if this is going to be the most difficult part of getting the budget passed, then I think it will be relatively easy. Because the fact that he found something that was hidden means that we don't have to concern ourselves with what is not there.

And, really, I appreciate the fact that it appears as though the opposition is not going to be toward the objective but how do we pay for it. And that is a legitimate question, because Republicans and Democrats are going to have to face our constituents. It is easy to provide better service and better education; it is difficult to pay for it. So the tax-raising part is something I join in with my colleague in hoping that you will be able believe to respond to that.

So we are prepared to take your testimony. Thank you, again, for coming. And proceed as you would care.

STATEMENT OF HON. PETER R. ORSZAG, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. ORSZAG. Chairman Rangel, Mr. Camp, Members of the Committee, I come before you at a time of great consequence for our economy and for our fiscal future.

When the President took office on January 20th, he inherited an economic crisis more severe than any since the Great Depression. Over the past 13 months, 3.5 million jobs have been lost, the greatest since World War II. In December and January alone, 1.2 million jobs were lost. The economy contracted by more than 6 percent in the final quarter of last year. And trillions of dollars in wealth have disappeared, harming retirement accounts and other assets for America's working families.

Why has this happened? A central cause is the collapse in credit in capital markets, itself fueled by inadequate oversight, insufficient disclosure, distorted incentives, and excessive conflicts of interest.

But the roots run much deeper than just that. They reflect an era of irresponsibility in which we have failed to address the deep, underlying problems and challenges we face in education, in energy, and in health care. And they reflect a theory of the case in which the only factor that was deemed to drive economic performance is the top one or two marginal tax rates, and the way of being in favor of the market was to funnel billions and billions of dollars of subsidies to corporations. I reject that theory. I don't think it worked very well.

The result is a pair of trillion-dollar deficits. The first is a trillion-dollar gap between how much the economy is producing each year and how much it could produce. That is shown on this first chart. The purpose of the Recovery Act was to start filling in that hole, again, between how much the economy is producing and how much it could produce, which is just lost income, $12,000 on average per year for a family of four each year.

The second trillion-dollar deficit is the budget deficit. When the Obama Administration took office, it faced a $1.3 trillion deficit for fiscal year 2009 and trillions of dollars of deficits out into the future. Indeed, if you look at just this year and next year, the impact of the economic downturn that we inherited and the steps that have been necessary to start combating it total $2 trillion in terms of deficit costs: $600 billion because the weaker economy drives down revenue; $650 billion for potential financial stabilization efforts; and $787 billion for the Recovery Act, which was necessary to get the economy back on the road to economic growth.

Looking forward, we must change course. If we don't adopt the policies that have been put forward in the President's budget, the deficit over the next decade will be $2 trillion higher, and we will not have addressed those underlying problems that we face in education, energy, and health care.

Let me be more specific.

First, we have to be honest about the deficits that we face. This budget does not assume, as past budgets did, that there would never be another hurricane. It does not assume, as past budgets did, that the alternative minimum tax would take over the Tax Code. It does not assume that we will slash Medicare physician payments in a way that would undermine access to doctors for Medicare beneficiaries, as past budgets did. All in, the budget includes $2.7 trillion in budget impact that would have been excluded from previous budgets.

I will come back to the point that Mr. Camp raised later on.

With the scope of the problem recognized, deficit reduction occurs in several areas, while also investing in those key priorities: education, energy, and health care. In particular, the President's budget cuts the deficit in half by the end of his first term, which reflects several forces, including eventual economic recovery, a winding down of the war, restoring some balance to the Tax Code while providing a net tax cut to 95 percent of working families, and, importantly, improving the efficiency of government.

The budget includes, for example, $100 billion in savings both for making sure that the right person gets the right benefit at the right time so that we are not making erroneous payments, for example, to Medicare providers and by eliminating inefficient subsidies to the middlemen on educational loans. Those two things right there, $100 billion over the next decade.

Contrary to the analysis of some pundits, this budget marks a dramatic change in that it pays for new initiatives—something that has not been done in the past—and it also reduces discretionary spending; that is, the basic operations of government as a share of the economy and over time, as this next chart shows.

Nondefense discretionary spending in 2009 will be about 4.1 percent of GDP. Over the next decade, under the President's budget, it will be 3.6 percent of GDP. And by the end of the budget window, 3.1 percent of GDP, the lowest on record since 1962. I think it is very hard to look at this graph, which is embodied in the numbers in the budget, and assert that it is a big-spending budget.

At the same time, we do reorient priorities toward long-term economic efficiency and productivity in energy, education, and health care. These are the areas that business leaders and others have long identified as key to our long-term economic performance.

In energy, we include $15 billion a year in energy-efficiency investments; for example, to move wind power from the Dakotas to population centers in a way that is not currently possible because the electricity superhighway does not exist between where the wind occurs and where the electricity is needed. To finance that, along with tax relief, in a fiscally responsible way, we do include a market-friendly cap-and-trade program to address climate change.

Now, let me address quite directly Mr. Camp's quotation from footnote 3 in Table S–2. The last sentence of that footnote states very clearly, "All additional net proceeds will be used to further compensate the public." In other words, to the extent that cap-and-trade raises any additional revenue, it will be returned to the public fully.

In the second area, education, we have historic investments in early education and in higher education, including shoring up funding for Pell grants and simplifying the application process to obtain such grants.

But let me spend most of the remainder of my time on health care, because I think that is not only the key to our fiscal future but also essential to helping workers, since workers' take-home pay is being reduced to a degree that is unnecessarily large and under-appreciated because of rising health care costs. It is also burdening State governments that are having trouble financing support for higher education because of rising health care costs.

If you look out over the future, it is clear from this graph that Medicare and Medicaid are the dominant forces driving Federal spending up over time. The rate at which health care costs grow is the single most important factor in our long-term fiscal gap. The Administration wants to adopt and enact health care reform this year to reduce the growth rate of health care costs and thereby address the key to our fiscal future.

There are substantial opportunities to reduce health care costs while potentially even improving quality, or at least not harming quality, as is evident from the very substantial variation that we see across parts of the United States, with the darker areas of the country having higher costs per beneficiary for reasons that cannot be explained by the sickness of the patients in those areas or the cost of building a hospital or the salaries paid to doctors in those areas, but rather is explained by the intensity of treatment; that is, if you have a certain diagnosis and you are in one of those darker areas of the country, you will have more tests administered to you, you will spend more days in the hospital, you will see more specialists.

And here is the kicker: All of the evidence suggests none of that actually improves health outcomes. Those lower-cost, less-intensive areas of the country not only have lower health care costs but the same, if not better, outcomes than the more-intense approaches. We need to be fixing that.

Dartmouth College researchers suggest that as much as $700 billion a year in health care expenditures could be reduced or eliminated from the system if we could move the practice norms in the darker parts of the country toward those in the lighter parts of the country.

How to do that? We need health information technology, which is already embodied in the Recovery Act. We need more research on what works and what doesn't; already funded in the Recovery Act. We need an emphasis on prevention and disease management; significant downpayment in the Recovery Act. And we need to reorient the payment incentives for providers, embodied in the budget proposals. The budget includes very significant changes so that we are no longer just paying for more care, we are paying for better care.

We can do this this year. We can bend the curve on long-term health care costs, improve the efficiency of the health system, and thereby not only help the Federal Government but help American families at the same time.

Now, as the chairman already said, none of this is going to be easy. But as the country music singer Montgomery Gentry put it, it ain't about easy, it is about tough. We need to make the tough choices that will put this country back on the right course. And that means being honest about what kinds of fiscal problems we face. It means reducing our medium-term deficit, as this budget does. It means investing in education and energy. And, finally, it means reforming our health care system to make it much more efficient, which is what we want to do this year.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Orszag follows:]

Testimony of Peter R. Orszag,
Director of the Office of Management and Budget
Before the Committee on Ways and Means, U.S. House
March 4, 2009

Chairman Rangel, Ranking Member Camp, and Members of the Committee, thank you for giving me the opportunity to discuss the President's Fiscal Year 2010 Budget.

Executive Summary

My full written statement delves into the details, but before we turn to those specifics let me step back and provide a broader overview of where we stand and where we need to go.

When the President took office on January 20th of this year, his Administration inherited an economic crisis unlike any we have seen since the Great Depression. Over three and a half million jobs were lost over the past 13 months, more than at any time since World War II. In December 2008 and January 2009 alone, nearly 1.2 million people lost their jobs. Manufacturing employment has hit a 60-year low. Our capital markets are virtually frozen, making it difficult for businesses to grow and for families to borrow money to afford a home or college education for their kids. Trillions of dollars in wealth have been wiped out, leaving many families with little or nothing as they approach their retirement years.

A central cause of this economic crisis has been a meltdown in our credit and capital markets – one fueled by years of inadequate oversight, insufficient disclosure, and excessive conflicts of interest among market gatekeepers. But the problems in our markets are not the only cause of the current crisis. The roots run deeper.

We have arrived at this point because of an era of profound irresponsibility – in which we threw fiscal caution to the wind and ran up trillions of dollars in debt… in which the tax code was used to exacerbate income and wealth disparities, not mitigate them…and in which we failed to confront the deep, systemic problems that over time have only become a larger drag on our economic growth – from the rising costs of health care to the state of our schools, from how we power our economy to our crumbling infrastructure.

The result is a pair of twin deficits, each in the range of $1 trillion per year. The first trillion dollar deficit is the gap between how much the economy has the potential to produce and how much it is actually producing each year. This output gap of roughly $1 trillion in 2009 would represent nearly 7 percent of the estimated potential output of the economy. This gap is why it was so necessary that Congress passed the American Recovery and Reinvestment Act, in order to start filling this hole, to put Americans back to work, and to jumpstart the economy.

The other trillion-dollar deficit is the budget deficits we are inheriting. Over the last eight years, our national debt nearly doubled. The record surplus that was inherited by the previous Administration turned into a post-war record budget deficit. So let's be clear: the Obama Administration was faced with a $1.3 trillion deficit when we walked in the door.

We project that the deficit for the current fiscal year, including the recovery and stability plans, will be $1.75 trillion, or 12.3 percent of GDP. Of that, $1.3 trillion, or 9.2 percent of GDP, was already in place when we assumed office.

The President is determined to cut this $1.3 trillion deficit by at least half in four years. This would bring the deficit down to $533 billion by fiscal year 2013. More importantly, it would reduce the deficit to about 3 percent of GDP.

The economic crisis we faced when taking office has made our fiscal situation, dramatically and quickly, much worse -- raising the budget deficit we are inheriting by a total of about $2 trillion for this year and next year.

- The weak economy, by reducing revenue collected and expanding the budget's automatic stabilizers (such as unemployment insurance), expands the deficit by more than $600 billion.

- Because of problems in financial markets, the costs of stabilization may amount to $650 billion or more – including the placeholder should additional efforts prove necessary to address the crisis we have inherited.

- To combat the recession, we had to act – through the $787 billion Recovery Act -- to jumpstart job creation and growth.

Without the change in policies contained in the budget, our budget deficits would be another $2 trillion bigger over the next decade – and we wouldn't have begun to make the investments in American-made, alternative energy; better education; and more efficient and higher quality health care that are crucial to long-term economic and fiscal sustainability.

Let me be clear: there are two paths that our country can take. We can continue the policies of the past – dig an even deeper fiscal hole and once more put off the critical investments needed for long-term economic growth. Or we can reduce the deficit by $2 trillion over the next decade, cut the deficit inherited by this Administration in half by the end of the President's first term, and make needed investments in clean energy, affordable health care, and world-class schools.

In his budget overview, the President laid out his way forward for our Nation.

It begins with presenting an honest budget – one that is straightforward with the American people about the fiscal challenges we face. That's why we include the likely future costs of the wars in Iraq and Afghanistan and other possible overseas military operations, the cost of fixing the AMT each year, and reimbursements to Medicare physicians. We offer a 10-year rather than a five-year look into our fiscal situation, and we budget for the possibility that there may be a hurricane, earthquake, flood, or other disaster sometime over the next decade.

This honesty comes at a cost -- $2.7 trillion or more over 10 years on our bottom line. But it's critical to begin tackling our fiscal challenges.

With the scope of the problem recognized, the President's budget reduces our medium-term deficits to a sustainable level through both spending restraint and rebalancing of our tax code. And it addresses health care, the key to our longer-term fiscal future.

Broadly speaking, the medium-term deficit reduction comes from responsibly winding down the war in Iraq and reforms to the defense acquisition and procurement system; restoring balance to the tax code by returning to the pre-2001 tax rates for families making more than a quarter of a million dollars a year (while giving 95 percent of working families a tax cut), closing loopholes, and eliminating subsidies to special interests; and improving the efficiency of government.

Contrary to the instant analysis of many pundits, this is a budget that entails substantial spending restraint. Unlike what's occurred in the past, we make sure that we pay for new initiatives. And the budget reduces non-defense discretionary spending – that is, the spending appropriated each year outside of defense -- to its lowest level as a share of GDP since data began to be collected in 1962.

Let me underscore this last point. The average level of non-defense discretionary spending between 1969 and 2008 was 3.8 percent of GDP. In 2009, such spending is estimated to represent 4.1 percent of GDP.

The President's budget proposes a gradual reduction of this non-defense discretionary spending as a share of economy. Spending averages 3.6 percent of GDP over the next decade and declines to 3.1 percent by the end of the 10-year budget window.

Over the longer term, however, the single most important step we could take to put the Nation back on a path to fiscal responsibility is to address rising health care costs. As I have said before, health care is the key to our fiscal future. We cannot afford inaction.

That's why in the Recovery Act the President began the process that will rein in health care costs with significant investments toward computerizing America's health care records, accelerating comparative effectiveness research, and scaling up prevention and wellness programs. All of these will help move us toward a health system with lower costs and higher quality.

In this budget, the President builds on these investments with a major commitment of $634 billion over 10 years to serve as a down payment for comprehensive health care reform. This reserve fund is financed half through walking back (to Reagan Administration levels) the itemized tax deductions allowed for families with incomes more than a quarter of a million dollars, and roughly half through efficiencies and savings from Medicare and Medicaid.

We must act now to begin the process of bending the curve on health care costs, and over time, realizing substantial savings for our Nation -- and improvements in health care quality and outcomes.

Health care is just one of three critical areas that for too long have been neglected and are deserving of significant investment now in order to create economic growth in years to come. The others are clean energy and education – and this budget makes significant investments in both.

The budget invests $15 billion a year to reduce our dependence on foreign oil and improve energy efficiency. It finances those investments, along with tax relief for consumers, through a market-based cap-and-trade system to reduce greenhouse gas emissions.

The budget also makes important investments in our most precious resource – our people – through a major new commitment to early childhood education, scaling up innovative new programs in our schools, and in improving college access for all our children. We can save almost $50 billion over the next decade by ending inefficient subsidies for student loan lenders. The budget would also invest in making college more accessible, by making the $2500 American Opportunity Tax Cut permanent, increasing the size of Pell Grants and putting the program on more solid footing, and simplifying the application process. These steps will help us reach the President's goal of having the United States lead the world in the proportion of college graduates by 2020.

Some may say that now is not the time to make these investments – that our fiscal and economic situation is too precarious. I share their concern about the fiscal health of our Nation – and the President does as well. As he has said repeatedly, part of our long-term economic security is how we handle these deep, fiscal challenges -- and we are already taking aggressive action to meet that challenge.

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But the bottom line is that that we simply cannot afford to stay on the course that we've been on. If we do not begin to address the high costs of health care, our families will continue to be squeezed, our businesses will have trouble competing, and our Nation will remain on an unsustainable fiscal path. If we do not invest in education and clean energy, our prospects for long-term economic growth will be diminished. And if we do not make government more efficient, we will continue to waste the precious resources we do have.

It'll take time to work through the challenges we have inherited – and change doesn't come easy. But as in most difficulties in life, we must adapt, adjust, and overcome. I am confident that if we confront our problems honestly and take responsibility for our future, our Nation will rebuild, recover, and emerge stronger than ever.

A Pair of Trillion Dollar Inherited Deficits

I come before the Committee at a time of great peril for our economy and for our Nation's fiscal future. The new Administration has inherited an economic crisis unlike any we have seen in our lifetimes. Our economy is in a deep recession, which threatens to be more severe than any since the Great Depression. More than three and a half million jobs were lost over the past 13 months, more than at any time since World War II. In addition, another 8.8 million Americans are under-employed. Manufacturing employment has hit a 60-year low. Our capital markets are virtually frozen, making it difficult for businesses to grow and for families to borrow money to afford a home, car, or college education for their kids. Trillions of dollars of wealth have been wiped out, leaving many workers with little or nothing as they approach retirement.

The result of this bleak economic picture, as well as the misplaced policy priorities of previous years, is a pair of twin deficits, each in the range of $1 trillion per year. The first trillion dollar deficit is the gap between how much the economy has the potential to produce and how much it is actually producing each year. This output gap of roughly $1 trillion in 2009 would represent nearly 7 percent of the estimated potential output of the economy. This gap is why it was so necessary that Congress passed the American Recovery and Reinvestment Act, to start filling this hole and jumpstart the economy through fiscal stimulus that increases short-term demand for goods and services.

Because fiscal stimulus boosts aggregate demand through increases in government spending or reductions in taxes, such policies raise budget deficits in the short term. That effect is desirable because it reflects the delivery of increased aggregate demand to the economy. Contemporaneous changes elsewhere in the Budget—tax increases or reductions in spending—designed to offset these short-term deficit effects would be counterproductive, because they would reduce or eliminate the stimulative effect. During an economic downturn, the key to economic growth is the demand for the goods and services the economy could produce with existing capacity—and in that situation, temporary increases in the deficit are necessary to put the economy back on track.

As the economy recovers, however, the effect of deficits on the economy reverses. At that point, the key to economic growth switches from boosting demand for goods and services (so existing capacity is fully used) to increasing the rate at which we expand the capacity for producing goods and services. Large budget deficits become harmful in this situation because they entail some combination of reduced funds available to finance domestic investment or increased borrowing from abroad to finance that domestic investment. Either way, budget deficits reduce future national income—either because the Nation does not have as much productivity-enhancing capital in the future or because we owe larger liabilities to foreign creditors. In the extreme, sustained deficits could seriously harm the economy. Large deficits would also limit our maneuvering room to handle crises in the future.

This brings me to the second trillion dollar deficit that the new Administration is inheriting. Under current policies, we face fiscal deficits of almost $1 trillion a year on average over the coming decade. OMB projects that the baseline deficit for FY 2009 will be about $1.5 trillion, or 10.6 percent of GDP. Over the ten-year budget window, from FY 2010 to FY 2019, aggregate baseline budget deficits will total nearly $9.0 trillion and average almost 5 percent of GDP. Over longer periods of time, the deficit reaches even higher shares of GDP primarily because of rising health care costs.

Over the medium to long term, the Nation is thus on an unsustainable fiscal course. We need to act, both to address the dramatic shortfall in national output in the near term and to tackle the medium- and long-term deficits that would ultimately become a drain on the Nation's potential for economic growth. The Recovery Act that Congress passed a few weeks ago was a bold and important first step toward addressing the first of the twin deficits we inherited. I will spend the remainder of my time today talking about the Administration's plans, detailed in the President's Budget, for dealing with the second of these inherited deficits, along with a few of the key investments the Budget would make in the Nation's economic future.

Return to Honest Budgeting

The first step in addressing our Nation's fiscal problems is to be honest about them. Too often in the past several years, budget tricks were used to make the government's books seem stronger than they actually were. If this Budget used the gimmicks employed in recent budgets, it would show a bottom line that would appear about $2.7 trillion better over ten years. Instead, the Budget acknowledges additional deficits of about $230 billion, or about 1.3 percent of GDP, in 2013 alone—deficits that previous budgets would have simply pretended didn't exist. Appearances can be deceiving, and omitting likely future costs is an accounting trick, not reality.

Unless we are straightforward about the scope and scale of our Nation's medium- and long-term fiscal problems, we cannot hope to reach agreement on a plan for solving them. As a result, the President's Budget returns the Nation to an honest budget footing by recognizing, rather than omitting, an array of future Federal government costs. Among these are:[1]

- **Including the likely future costs of overseas contingency operations**. Our Budget includes funding over ten years for overseas contingency operations, raising projected deficits by about $580 billion over the next ten years compared to the treatment in prior budgets. These prior budgets generally did not assume any funding for overseas contingency operations in the out-years. We include estimated costs of these operations in the out-years to be fiscally conservative, but they do not reflect any specific policy decisions. Several strategy reviews are underway that will inform out-year costs, and it would be premature at this time to prejudge those reviews.

- **Indexing fully the alternative minimum tax for inflation rather than assuming that AMT relief will suddenly expire**. Our Budget includes an AMT fix in all years, raising projected deficits by about $1.4 trillion over the coming decade. In contrast, past budgets have generally included AMT fixes for only the current year. Almost everyone agrees, however, that policymakers will not allow the AMT to take over the tax over time, and our Budget reflects that reality rather than pretending it does not exist.

- **Incorporating reimbursements to Medicare physicians, without assuming deep and sudden cuts in those payments.** Our Budget includes the Administration's best estimate of future SGR relief given the agreed-to fixes for Medicare physician reimbursement in past years. As a result, projected deficits are about $400 billion higher over the next ten years than they would otherwise be. In contrast, past budgets accounted for no SGR relief in any years. (Although our Budget baseline reflects our best estimate of future SGR relief given past policy actions on SGR, as discussed below we are not asserting that this should be the future policy and we recognize that we need to move toward a system in which doctors face stronger incentives for providing high-quality care rather than simply more care.)

- **Recognizing the statistical likelihood of Federal costs for natural disasters instead of assuming that there will be no such costs**. Our Budget accounts for the statistical probability of Federal government costs for future disasters, raising our projected deficits

[1] The following cost estimates include interest expenditures; in addition, the estimate for the AMT policy assumes extension of the 2001 and 2003 tax cuts.

by more than $270 billion over the coming decade. Recent budgets generally did not assume that there would be such costs over the budget window.

- **Offering a ten-year rather than five-year look into our fiscal situation**. Our Budget uses a ten-year budget window. With the baby boom generation moving into retirement, slowly at first but more rapidly as the years pass, the costs of Medicare and Social Security will increase with time. For that reason, a ten-year view of the budget gives a better sense of the effect of the budget on the long-term fiscal picture than a five-year view. Recent budgets employed only a five-year budget window.

The Long-Term Fiscal Gap and Health Care

The principal driver of our Nation's long-term budget problem is rising health care costs. If costs per enrollee in our two main Federal health care programs, Medicare and Medicaid, grow at the same rate as they have for the past 40 years, those two programs will increase from about 5 percent of GDP today to about 20 percent by 2050. (As the Congressional Budget Office (CBO) and others have noted, there are reasons to expect cost growth to slow in the future relative to the past even in the absence of policy changes. But the point remains that reasonable projections of health care cost growth under current policies shows that they are the central cause of the Nation's long-term fiscal imbalance.) Many of the other factors that will play a role in determining future fiscal conditions—including the actuarial deficit in Social Security—pale by comparison over the long term with the impact of cost growth in the Federal government health insurance programs. Health care is the key to our Nation's fiscal future, and health care reform is entitlement reform.

The Administration has signaled its understanding of health care's centrality to our Nation's fiscal future through its actions in its first weeks and through the submission of this Budget. Two weeks ago, the President signed the American Recovery and Reinvestment Act, which devotes resources now to develop the infrastructure for lowering health spending in the long run, including key investments in computerizing medical records, comparative effectiveness research, and prevention and wellness interventions.

To build on these steps, the President's Budget sets aside a reserve fund of more than $630 billion over 10 years dedicated to financing reforms to the American health care system. While a very large amount of money and a major commitment, the Administration recognizes that $630 billion is not sufficient to fully fund comprehensive reform. But this is a first crucial step in that effort, and we are committed to working with Congress to find additional resources to devote to health care reform. The Administration will explore all serious ideas that, in a fiscally responsible manner, achieve the common goals of constraining costs, expanding access, and improving quality.

Although reforming health care is the key to our Nation's fiscal future, other programs – including Social Security – do contribute to our long-term deficit. The long-term shortfall in Social Security, though, is modest relative to the possible effect of health care on the budget. As I just mentioned, if costs per enrollee in Medicare and Medicaid, grow at the same rate as they have in the last four decades, the costs associated with these two programs would increase by 15 percentage points of GDP—rising from 5 percent of GDP today to about 20 percent by 2050. By comparison, the cost of Social Security benefits is expected to increase by 1.5 percentage points of GDP over this same period, according to the Social Security actuaries, and the system, without any changes, is expected to be able to pay full benefits through 2041. After we reform health care, the Administration looks forward to working with Congress to strengthen Social Security's finances.

Health Care Reserve Fund

The $630 billion reserve fund is financed roughly 50-50 between a combination of re-balancing the tax code so that the wealthiest pay more and specific health care savings in three areas: promoting efficiency and accountability, aligning incentives toward quality, and encouraging shared responsibility.

Lowering health care costs and expanding health insurance coverage will require additional revenue. The Budget includes a proposal to limit the tax rate at which high-income taxpayers can take itemized deductions to 28 percent. The initial reserve fund would be about half funded through this provision, which would raise $318 billion over 10 years. In the health reform policy discussions that have taken place over the past few years, a wide range of other revenue options have been discussed—and these options are all worthy of serious discussion as the Administration works with Congress to enact health care reform.

On the savings side, the Budget proposes health savings for the reserve fund that would total $316 billion over 10 years, which would simultaneously help to improve the quality and efficiency of health care without negatively affecting the care Americans receive. These savings include:

- **Reducing Medicare overpayments to private insurers through competitive payments.** Under current law, Medicare pays Medicare Advantage plans 14 percent more on average than what Medicare spends for beneficiaries enrolled in the traditional fee-for-service program. This is because the current system bases payments on administratively determined benchmarks that are set well above the cost of providing fee-for-service Medicare benefits. Medicare pays roughly $1,000 per beneficiary more each year as a result, and MedPAC estimates that the Federal government pays $1.30 for each

$1.00 increase in Medicare Advantage supplementary benefits. Even with these subsidies, the evidence suggests that Medicare Advantage does not provide better quality of care.

The Budget would replace the current mechanism used to establish payments with a new competitive system in which payments would be based upon an average of plans' bids submitted to Medicare. The Administration's proposal would better align plan payments with the actual cost of coverage. This would allow the market, not Medicare, to set the reimbursement limits. This is similar to the process used for establishing payments for the Medicare Part D drug benefit. Our proposal would save taxpayers more than $175 billion over 10 years as well as reduce Part B premiums.

- **Reducing drug prices.** The Budget would accelerate access to affordable generic biologic drugs through the establishment of a workable regulatory, scientific, and legal pathway for generic versions of biologic drugs**.** To retain incentives for the research and development of breakthrough products, a period of exclusivity would be guaranteed for the original innovator product, which is generally consistent with the principles in the Hatch-Waxman law for traditional products. Brand biologic manufacturers would also be prohibited from reformulating existing products into new products to restart the exclusivity process, a process known as ever-greening. Furthermore, the Administration would prevent drug companies from blocking generic drugs from consumers by prohibiting anticompetitive agreements and collusion between brand name and generic drug manufacturers intended to keep generic drugs off the market.

  In addition, the Budget would bring down the drug costs of Medicaid by increasing the Medicaid drug rebate for brand-name drugs from 15.1 percent to 22.1 percent of the Average Manufacturer Price, applying the additional rebate to new drug formulations, and allowing states to collect rebates on drugs provided through Medicaid managed care organizations.

- **Improving Medicare and Medicaid payment accuracy.** The Government Accountability Office (GAO) has labeled Medicare as "high-risk" due to the billions of dollars lost to overpayments and fraud each year. The Budget proposes $311 million in FY 2010 for program integrity activities for the Centers for Medicare and Medicaid Services (CMS) initially targeted to remedy the vulnerabilities in Medicare and Medicaid, including Medicare Advantage (MA) and the prescription drug benefit (Part D). CMS will be able to respond more rapidly to emerging program integrity vulnerabilities across these programs through an increased capacity to identify excessive payments and new processes for identifying and correcting problems. With this additional funding, CMS will be better able to minimize inappropriate payments, close loopholes, and provide better value for program expenditures to beneficiaries and taxpayers.

- **Improving care after hospitalizations and reducing hospital readmission rates.** Nearly 18 percent of hospitalizations of Medicare beneficiaries result in the readmission of patients who have been discharged from the hospital within the last 30 days. Sometimes such readmissions cannot be prevented, but many are avoidable. Under the policy in the Budget, hospitals would receive bundled payments that cover not just hospitalization, but care from certain post-acute providers for the 30 days after hospitalization, and hospitals with high rates of readmission would be paid less if patients are re-admitted to the hospital within that 30-day period. This combination of incentives and penalties should lead to better care after a hospital stay and result in fewer readmissions—saving roughly $26 billion of wasted money over 10 years.

- **Expanding the Hospital Quality Improvement Program.** The health care system tends to pay for the quantity of services delivered, not their quality. Experts have recommended that hospitals and doctors be paid based on delivering high quality care, or what is called "pay for performance." The Budget proposes to link a portion of Medicare payments for acute inpatient hospital services to hospitals' performance on specific quality measures. This program would improve the quality of care delivered to Medicare beneficiaries and is estimated to save more than $12 billion over 10 years.

Long-Term Containment of Health Care Costs

By identifying specific health savings for the health care reserve fund, the Administration is making a down payment on expanding health care coverage to all Americans and also on containing the growth in health care costs required to restore long-run balance to the Nation's fiscal outlook.

Yet there are additional steps that can be taken to address the fundamental inefficiencies of our Nation's health care system. Across the country, health care costs vary substantially from region to region, and yet higher-cost areas do not generate better health outcomes than lower-cost areas. Even among our Nation's leading medical centers, costs vary significantly—with costs at some centers twice as high as others—but higher-cost centers do not achieve higher quality than lower-cost centers. Some researchers believe health care costs could be reduced by a stunning 30 percent—or about $700 billion a year—without harming quality if we moved as a Nation toward the proven and successful practices adopted by lower-cost areas and hospitals.

Capturing this opportunity would help to boost family take-home pay and put the Nation on a sounder fiscal path. It will require expanding the use of health information technology, more aggressively studying what works and what doesn't, promoting prevention and healthy living, and experimenting with different payment systems to health care providers.

The Administration is committed to bringing about these reforms in order to slow health-care cost growth over the long run and has already initiated many of them through the Recovery Act, including computerizing America's health records in five years, developing and disseminating information on effective medical interventions, investing in prevention and wellness, and reforming the physician payment system to improve quality and efficiency.

Medium-Term Deficit Reduction

The health care reforms I have described will reduce the growth of health care costs over time, and thus address the most important contributor to the Nation's long-term fiscal shortfall. These changes will take time, however. In the meanwhile, we also need to begin making the hard choices that will, as the economy recovers, reduce deficits in the medium term.

Without using the gimmicks of previous budget proposals, the Budget cuts in half, by the end of the President's first term, the deficit this Administration inherited when it took office. Over the next four years, the deficit would fall to about three percent of GDP under the Administration's policies and remain stable through the remainder of the coming decade. The Budget reaches this path by proposing policies that pare back deficits by a total of $2.0 trillion over the next ten years. This brings us to a sustainable and realistic fiscal course for the coming decade.

The Budget features four main deficit reduction mechanisms:

- First, economic recovery, aided substantially by the Recovery Act, will help to reduce deficits by automatically dampening spending in safety net programs and raising revenues.

- Second, the Budget would return fairness to the tax system by closing tax loopholes, eliminating subsidies for special interests, enhancing enforcement, and returning to the pre-2001 tax rates for high-income families making more than $250,000 per year.

- Third, the Budget reflects savings from responsibly redeploying our military forces engaged in overseas contingency operations, as well as reforms that would allow us to get more for the money spent on defending the Nation.

- Finally, the Budget includes significant spending constraints and puts the Nation on a path to reducing non-defense discretionary spending as a share of GDP. The average level of NDD spending between 1969 and 2008 was 3.8 percent of GDP. In contrast, the

President's Budget proposes a gradual reduction in NDD spending as a share of the economy. Such spending averages 3.6 percent of GDP from 2010 to 2019 and declines to 3.1 percent by the end of the budget window – the lowest since the government began collecting the data in 1962.

These measures facilitate some key investments in productivity-enhancing areas like education and infrastructure (discussed later in this testimony) while also producing a net deficit reduction of $2 trillion over the next decade.

I will now discuss a number of these sources of deficit reduction in greater detail.

Returning Fairness to the Tax System

The Budget returns fairness and balance to the tax system. While providing tax cuts to 95 percent of working families, the Budget raises additional revenue from the corporations and individuals most able to pay.

After year upon year of tax reductions that disproportionately benefited the wealthiest Americans, we have been left with a tax system that is insufficient to meet national needs. Under current policies, even after the economy recovers, revenue would be below its 1990s average—despite rising health care costs and other new burdens the government faces. After the end of the recession, the Budget therefore raises revenue to a level that, as a share of GDP, is still lower than in the latter half of the 1990s. The Budget includes the following revenue proposals:

- **Allowing the 2001 and 2003 tax cuts to expire for high-income Americans.** The Budget proposes allowing most of the 2001 and 2003 tax cuts to expire in 2011, as scheduled, for couples making more than $250,000 and individuals making more than $200,000 per year. Additional revenues gained would be devoted to deficit reduction. These tax cuts were both unaffordable and unfair at the time they were enacted, and remain so today. This Budget would simply return the marginal tax rates for these wealthiest Americans to what they were prior to 2001. Altogether, allowing these tax cuts to expire would reduce the deficit by about $750 billion over the next ten years relative to current policy.

- **Eliminating tax subsidies for corporations and high-income individuals.** The current tax system is undermined by subsidies that benefit only narrow and often well-heeled interest groups. The President's Budget would eliminate a range of such subsidies. The Budget proposes to do away with tax subsidies for oil and gas companies described further below and to no longer allow the managers of private equity and other partnerships to enjoy a low capital gains rate on part of their labor income—instead, treating their compensation like other forms of compensation. Further, the Budget lays the groundwork for reforming our tax code so multinational corporations pay taxes more like domestic companies, rather than being able to defer taxation of profits earned by their subsidiaries.

- **Closing tax loopholes for oil and gas companies**. The Budget proposes the elimination, starting in 2011, of an array of tax advantages for domestic oil and gas producers. Although the Administration supports the responsible production of oil and natural gas as part of a comprehensive energy strategy, excessive government subsidies distort market signals and slow the transition of the economy from fossil fuels to clean, renewable sources of energy. (To take just one example, the Administration proposes to repeal the expensing of intangible drilling costs such as labor, chemicals, and grease. Under the existing provision, if $80,000 of a $100,000 investment in an oil well were spent on intangible drilling costs, that $80,000 could be immediately written off by a producer, rather than amortized over the life of the asset, as would be the rule for the costs of labor and materials used to build a factory, for example.)

- **Enhancing enforcement.** According to the latest estimate, the net tax gap—the gap between what corporations and individuals owe under the tax law and what they paid either voluntarily or as a result of enforcement actions—stands at nearly 3 percent of GDP. To give a sense for the magnitude of this number: This is nearly five times what the Federal government spends each year on veterans and about equal to what it currently spends on Medicare. We can and must do better than this.

  This Budget proposes measures that would enhance enforcement, making more corporations and individuals pay the taxes they already owe under current law. For instance, the Budget would attack sham tax transactions by codifying the principle that corporations and individuals cannot avoid paying taxes by engaging in transactions for no other reason than to lower their tax liability. It would also require increased reporting of rental payments to the IRS so this income is properly reported by the recipient. Furthermore, the Budget proposes targeting tax havens and expanding international tax enforcement efforts—efforts that, while still in the planning stages, are expected to raise considerable revenues over time.

Redeploying Military Forces Engaged in Overseas Contingency Operations and Restraining Growth of Other Defense Spending

As we look to the challenges facing our Nation, it is imperative that we invest our defense dollars effectively and wisely.

The Budget reflects savings from two sources in the defense budget:

- **Redeployment of military forces engaged in overseas contingency operations.** The Budget funds the Administration's strategy to increase our troop levels in Afghanistan and to responsibly remove combat brigades from Iraq. Under this strategy, the costs of operations in the two countries combined are expected to fall. Under the President's Budget, as troop levels decrease, the combined cost of Iraq and Afghanistan operations would decrease by about $50 billion in 2009 and $65 billion in 2010, compared with the 2008 level of $187 billion (adjusted for inflation). Beginning in 2011, the Budget reflects a placeholder cost of about $50 billion per year, which is included to be responsible but does not reflect any specific policy decisions. Several strategy reviews are underway that will inform out-year costs, and it would be premature at this time to prejudge those reviews.

- **Restraining growth of other defense spending while maintaining key priorities.** For FY 2010, the Budget requests $533.7 billion for the Department of Defense (DoD), an increase of $20.4 billion, or 4 percent, from the 2009 enacted level of $513.3 billion (excluding $7.4 billion from the Recovery Act). This growth is greater than the post-Cold War average of 2.9 percent but less than the nearly 7 percent annual growth over the last eight years.

  This level of growth maintains a strong Defense Department, allowing DoD to address the President's highest priorities. These priorities including increasing the size of the Army and Marine Corps, giving a 2.9 percent pay raise to our men and women in uniform, improving DoD facilities (especially military housing), and improving the medical treatment of wounded service members. Taking into account the importance of managing defense priorities in a cost-efficient manner, the Budget also emphasizes acquisition reform. The Administration will work to set realistic requirements and incorporate "best practices" to control the cost growth and schedule slippage of DoD's weapons programs.

Line-by-Line Review of the Budget

The Administration believes that we should be investing taxpayer dollars in efforts and programs with proven records of success and reallocating or eliminating programs that do not work or whose benefits are not worth their cost. To this end, the Administration has begun an exhaustive line-by-line review of the Federal budget, starting with one of its most important lines—health care. The first stage of this line-by-line review will be reflected in the spring release of the full FY 2010 Budget and will continue in subsequent years. However, the Administration has already identified a number of policies to drive savings. These include:

- Increasing Federal government health savings, as specified earlier in my testimony.

- Phasing out and eliminating certain inefficient agriculture subsidies, such as direct payments to high-revenue crop producers and storage subsidies for cotton producers. These measures would cut deficits by about $19 billion over the next ten years.

- Eliminating subsidies to banks participating in the student loan program. As I discuss in greater detail later in my testimony, banks that make government-guaranteed loans are entitled to subsidies that are set by Congress. In the Budget, we propose to eliminate these subsidies while providing a more stable source of financing for student loans. This reduces deficits by another $60 billion over the next ten years.

- Reducing erroneous payments in Federal programs and increasing tax enforcement by investing in "program integrity." The Budget also makes significant investments in activities to ensure that taxpayer dollars are spent correctly, expanding oversight of the largest benefit programs and increasing investments in tax compliance. These efforts are expected to reduce deficits by about $64 billion over the coming decade.

- Targeting other inefficient or ineffective programs. The Budget not only focuses on "big dollar" initiatives. It also recognizes that, even if relatively small amounts of money are at stake compared to the scale of the Federal budget, taxpayers' funds should be used wisely. The Budget, for instance, proposes eliminating small, ineffective HUD programs and increasing collection of delinquent tax from Federal contractors.

This list gives a flavor of the program eliminations and investments in efficiency included in the Budget. We expect to propose further such measures as we move forward with our intensive review of Federal government programs.

Reforming How Government Works

The President's Budget also begins the process of reforming how government works, increasing efficiency, transparency, and simplicity. The initiatives both protect taxpayer dollars and, also, make it easier for the American people to interact with their government. This reform process is not one that can be completed overnight, and the Administration will continue to develop new ways to make government work better for the people. The Budget is a starting point and an important step forward.

Improve Administrative Performance

Reforming how government works is not only a question of cutting and eliminating ineffective programs, but also making worthwhile programs work better by improving performance. For decades, the argument in Washington has been between those who say that government is the cause of every problem and those who say it is the answer. What has become clear over the past eight years, especially in light of the Federal government's response to Hurricane Katrina, is that what really bothers Americans is bad government—government that does not do its job effectively and efficiently.

To make government more effective, the Administration will undertake a number of initiatives. These include:

- **Streamlining government procurement.** The Administration will implement the GAO's recommendations to reduce erroneous Federal payments, reduce procurement costs with purchase cards, and implement better management of surplus Federal property. These initiatives will save $4.5 billion a year.

- **Reforming Federal contracting and acquisition.** The Administration will take several steps to make sure that taxpayers get the best deal possible for government expenditures. We will review the use of sole source, cost-type contracts; improve the quality of the acquisition workforce; and use technology to create transparency around contracting. We will review acquisition programs that are on the GAO high-risk list for being over-budget and prone to abuse. The Administration also will clarify what is inherently a governmental function and what is a commercial one; critical government functions will not be performed by the private sector.

- **Enforcing standards in addition to measuring performance.** The Administration will fundamentally reconfigure the Program Assessment Rating Tool (PART). We will engage the public, Congress, and outside experts in the development of an open performance measurement process that improves results and outcomes for Federal government programs while reducing waste and inefficiency. The Administration will develop goals Americans care about and that are based on congressional intent and feedback from the people served by government programs. Programs will not be measured in isolation, but assessed in the context of other programs that are serving the same population or meeting similar goals. I will ask each major agency to identify a limited set of high priority goals over the next few months that will serve as the basis for the President's meetings with cabinet officers to review their progress toward meeting performance improvement targets. We will also identify opportunities to engage the public, stakeholders, and Congress in this effort.

- **Improving program integrity.** With hundreds of billions of dollars being spent in programs such as Medicare, Medicaid, and Social Security, it is important that they are run efficiently and effectively. For every $1 spent to combat health care fraud, for example, evidence suggests that the government recoups $1.60. The Administration will expand oversight activities in our largest benefit programs -- so that the right payment is made to the right person or provider at the right time -- and increasing investments in tax compliance and enforcement activities. We expect these investments to save a total of $48.5 billion over the next ten years in these areas.

- **Cutting the government's electricity bills.** The Federal government is the largest energy consumer in the world. Making substantial investments to reduce the government's energy consumption can spur job creation while delivering long-term government savings through lower energy bills. The Budget will build upon the more than $11 billion provided for building modernization in the Recovery Act to achieve the Administration's 25 percent energy efficiency improvement goal by 2013.

Education

While aiming to make government work better overall, the Budget also focuses its reforms on certain priority areas. When it comes to education policy, the Budget seeks to increase efficiency, simplicity, and transparency through a number of initiatives including:

- **Eliminating government-created subsidies for banks in the student loan program and shifting savings to students.** Right now, banks that make government-guaranteed loans are entitled to subsidies set through the political process. Because of turmoil in the financial markets, the bank-based program has needed additional government supports over the last year, and even so, lender instability has forced thousands of students to change lenders abruptly. Meanwhile, last year more than 800 schools enrolled in the direct loan program, and nearly half made direct loans last year, all without significant disruption. Student satisfaction with direct loans is high, while cost to taxpayers is low, because the program uses competitively selected, private providers to service loans. The Budget would originate all loans in the direct loan program beginning in the 2010-11 school year. Analysis by CBO, GAO, and OMB shows this approach would save taxpayers large sums of money; by our estimates, it would save more than $4 billion a year.

- **Making it easier to apply for student aid.** To apply for student aid, students must complete a complicated form. Our plan, while still in development, would considerably simplify the process through such measures as streamlining the form itself and/or using tax data to automatically populate the form with an applicant's answers. This is not merely a question of saving time, but also encouraging more eligible students to participate in the program.

- **Increasing transparency of the Pell program.** In addition to increasing the maximum Pell award to $5,550 for the 2010-11 school year, the President's Budget makes the program's funding more transparent by converting the program from a discretionary to a mandatory program. This would end the dishonest practice of "backfilling" billions of dollars in Pell shortfalls each year and provide certainty to families about the level of Pell Grant funding available each year.

- **Preparing and rewarding effective teachers and principals.** Building on the investments in the Recovery Act, the Administration will invest in efforts to strengthen and increase transparency around results for teacher and principal preparation programs, including programs in schools of education, alternative certification programs, and teacher and principal residency programs. The Budget supports additional investments in state and local efforts, developed in consultation with teachers and other stakeholders, to implement systems that reward strong teacher performance and help less effective teachers improve or, if they do not, exit the classroom.

- **Determining what works.** The Budget also increases funding for rigorous evaluation as a first step toward doubling the Department of Education's support for education research. The Department would use this funding to conduct rigorous evaluations of approaches to improve student learning and achievement with a focus on evaluating and scaling up promising innovative practices while improving or ending programs that are ineffective.

Making It Easier to Save

To make government programs more effective, the President's Budget also looks beyond the traditional mechanisms. The Budget seeks to harness new insights into human behavior in designing government programs.

Thus, to encourage greater saving, the Budget not only expands financial incentives for low- to middle-income Americans to save more, which it does by making the Saver's Credit refundable and thus available to a much wider population; it also requires that employers automatically enroll their employees in some form of savings vehicle when they start work—either a workplace pension plan or, if the employer does not offer such a plan, a direct-deposit IRA. Employees can then elect not to participate if they so choose. Extensive research has shown that merely changing the default from non-participation to participation in a retirement plan can dramatically increase participation rates, despite the fact that workers can voluntarily stop saving. Experts estimate that, for workers generally, participation rates could about double as a result of automatic enrollment and that the effect is even larger for those with lower incomes.

This is the type of innovation the Administration is committed to applying more generally. Without expanding financial incentives, imposing penalties, or otherwise constraining people's options, programs can still encourage desired behaviors. Increasing saving rates is just one such application.

Making Key Investments

The Budget also expands Federal investment in certain key priorities. This goes hand-in-hand with making government work better for all Americans. Making government work better requires not only reducing or eliminating failing programs and increasing programmatic efficiency and simplicity but also enhancing programs that do work and deserve additional resources.

Many of these investments will increase economic growth by building the Nation's capital stock, both physical and human, and spurring technological innovation. Government investment is key to long-term economic growth, and this investment has, in recent years, been critically low in a number of respects. In addition to making these investments, the Budget also provides more resources to deserving populations, such as our Nation's veterans.

Education

I have described how our proposals would reform education policy by increasing efficiency, simplicity, and transparency. The Budget goes beyond this by investing resources in programs that expand opportunity and increase quality.

- **Investing in early childhood education.** We know that a dollar invested in early education will pay off handsomely as these children get older. That is why the Administration is proposing to help states strengthen their early education programs. The Budget would broaden the reach of these programs and boost their quality, encouraging new investment, a seamless delivery of services, and better information for parents about program options and quality. In addition, through funds from the Recovery Act and this Budget, the Administration will double the number of children served by the Early Head Start program and expand Head Start, both of which have proven to be successful with younger children. Finally, the Department of Health and Human Services will begin a major new effort to ramp up the Nurse-Home Visitation program. Rigorous research has shown that a well-structured program can have large and measurable impacts in helping at-risk expectant and new parents give their children a healthy start in life.

- **Expanding higher education opportunities.** Because the Administration is committed to making college affordable for all Americans, the Budget, in addition to making the Pell program mandatory, builds on the Recovery Act by supporting a $5,550 Pell Grant maximum award in the 2010-2011 school year. The Budget would also index the Pell grant award to the Consumer Price Index plus 1 percent in order to account for inflation in this sector. Along with expansion of the Pell program, the Recovery Act created a new $2,500 American Opportunity Tax Credit, making college tax incentives partially refundable for the first time. As a result, many high school seniors who receive no tax incentives under the current system will, for the first time, receive a tax cut to make college affordable. The Budget proposes to make this tax cut permanent.

- **Helping at-risk students complete college.** It is not enough for our Nation to enroll more students in college; we also need to graduate more students from college. A few states and institutions have begun to experiment with these approaches, but there is much more they can do. The Budget includes a new five-year, $2.5 billion Access and Completion Incentive Fund to support innovative state efforts to help low-income students succeed and complete their college education. The program will include a rigorous evaluation component to ensure that we learn from what works.

Infrastructure

Today, too many of our railways, highways, bridges, airports, and neighborhood streets are aging and congested due to lack of investment and strategic long-term planning. In the short term, modernizing our infrastructure would create new jobs and provide a boost to the economy. In the longer term, infrastructure investment would provide our Nation a foundation for long-term economic growth. The Budget proposals include:

- **Establishing a National Infrastructure Bank.** The Budget proposes to expand and enhance existing Federal infrastructure investments through a National Infrastructure Bank designed to deliver financial resources to priority infrastructure projects of significant national or regional economic benefit. The mission of this entity will be to not only provide direct Federal investment but also to help foster coordination through State, municipal, and private co-investment in our most challenging infrastructure needs.

- **Investing in our Nation's roads, bridges, and mass transit.** The President is committed to instituting accountability for the $35.9 billion provided in the Recovery Act and to responsibly reauthorizing the Nation's highway and mass transit programs. Further, our surface transportation system must generate the best investments to reduce congestion and improve safety. To do so, the Administration will emphasize the use of economic analysis and performance measurement in transportation planning. This will ensure that taxpayer dollars are better targeted and spent.

- **Improving and modernizing air traffic control.** Because of an outdated air-traffic control system and over-scheduling at airports already operating at full capacity, an ordinary trip to a business meeting or to visit family can become marred by long delays. The Budget provides $800 million for the Next Generation Air Transportation System (NextGen) in the Federal Aviation Administration, a long-term effort to improve the efficiency, safety, and capacity of the air traffic control system.

- **Maintaining rural access to the aviation system.** The Administration is committed to maintaining small communities' access to the National Airspace System. The Budget provides a $55 million increase over the 2009 level to fulfill current program requirements as demand for subsidized commercial air service increases. However, the program that delivers this subsidy is not efficiently designed. Through the budget process, the Administration intends to work with the Congress to develop a more sustainable program model that will fulfill its commitment while enhancing convenience for travelers and improving cost effectiveness.

- **Expanding access to broadband.** As a country, we have made significant public investments so that, regardless of economic status or location, Americans have access to telephone service and electricity. The Recovery Act does the same for broadband, and our Budget would expand upon these efforts. The Recovery Act includes $7.2 billion for broadband expansion and the Budget includes $1.3 billion in USDA loans and grants for the Department of Agriculture to increase broadband capacity and improve telecommunication service as well as education and health opportunities in rural areas.

Science

Like investments in physical infrastructure, investments in scientific knowledge also increase productivity and economic growth. The Budget proposes:

- **Doubling funding for key basic research agencies.** The President's Budget would double funding over 10 years for three key basic research agencies: the National Science Foundation, the Department of Energy's Office of Science, and the Department of Commerce's National Institute of Standards and Technology. The Recovery Act includes a $5 billion investment in these agencies, which is an almost 50 percent increase for these programs over 2008 and represents a significant down payment toward the President's plan to double funding. This initiative will help fund cutting edge research done by universities, government laboratories, and private industry. It is especially important for the government to fund such activities since basic research tends to have positive spillover effects that flow across the economy.

- **Increasing funding for research into cutting edge technologies.** The Budget also increases support for promising but exploratory and high-risk research proposals that could fundamentally improve our understanding of climate, revolutionize fields of science, and lead to radically new technologies. Such research includes interdisciplinary work like that conducted by researchers at Cornell University, who have developed a tiny nanotechnology particle that could ultimately both deliver a drug to a specific cell and monitor the cell's response to the drug; a therapeutic combination that would revolutionize medicine. In addition, the Budget funds cutting-edge, fundamental research to help transform the Nation's air transportation system, increase airspace capacity and mobility, enhance aviation safety, and improve aircraft performance while reducing noise, emissions, and fuel consumption.

Energy

The Budget lays the groundwork for an agenda that would transform our Nation's energy consumption. As we have known for many years now, the United States' dependence on oil and other fossil fuels undermines the country's national security, and a growing wealth of scientific evidence also suggests that this dependence is contributing to global warming, jeopardizing our economy and our entire planet.

As a down payment on an energy-independent, clean-energy economy, this Budget proposes:

- **Funding vital investments in a clean energy future totaling $150 billion over 10 years, starting in FY 2012**. To finance these investments in a fiscally responsible manner, while also providing tax relief to consumers, the Administration proposes a market-friendly cap-and-trade program to reduce greenhouse gas emissions.

- **Beginning a comprehensive approach to transform our energy supply and slow global warming**. The Administration is developing a comprehensive energy and climate change plan to invest in clean energy, end our dependence on oil, and address the global climate crisis. The Administration plans to work expeditiously with key stakeholders and Congress to develop an economy-wide emissions reduction program to reduce greenhouse gas emissions approximately 14 percent below 2005 levels by 2020, and approximately 83 percent below 2005 levels by 2050. This program will be implemented through a cap-and-trade system.

- **Building on the Recovery Act's investments in a new economy that is powered by clean and secure energy**. The Budget will build on the Recovery Act's investments by significantly increasing funding for basic research and transformational science to accelerate solutions to our Nation's most pressing problems. The Budget also supports the transition to a low-carbon economy through increased support of the development and deployment of clean-energy technologies such as solar, biomass, geothermal, wind, and low-carbon emission coal power, and it builds on the $11 billion provided in the Recovery Act for smart grid technologies, transmission system expansion and upgrades, and other investments to modernize and enhance the electric transmission infrastructure to improve energy efficiency and reliability.

- **Creating a New Energy innovation fund.** The Budget includes funds for HUD to drive the creation of an energy-efficient housing market—including the "retrofitting" of older, inefficient housing—and catalyze private lending for this purpose in the residential sector. Partnering with the Department of Energy on this initiative, HUD will contribute to the Administration's broader effort to combat global warming, jumpstart the creation of a clean-technology economy, and reduce utility bills.

Veterans

While investing for the future, the Budget also devotes more resources to deserving populations, such as our Nation's veterans. The Budget expands support for veterans by:

- **Increasing funding for Veterans Affairs (VA) by $25 billion over the next five years.** The President's Budget increases funding for VA by $25 billion over the next five years in order to honor our Nation's veterans and expand the services they receive. Some of these funds will be used to transform the VA into a 21st-century organization, including investments in information technology that directly benefit veterans in the areas of both health care and benefits.

- **Dramatically increasing funding for VA health care.** The President's Budget provides VA medical care with the resources it needs to provide 5.5 million veterans with timely and high quality care.

- **Restoring health care eligibility for modest-income veterans.** For the first time since January 2003, the President's Budget restores eligibility for VA health care to non-disabled veterans earning modest incomes. By 2013, this initiative will bring over 500,000 additional veterans into the VA health care system while maintaining high quality and timely care for the lower-income and disabled veterans who currently rely on VA medical care.

Conclusion

The President's Budget strikes a new course for America. It presents the fiscal path with honesty, and deficits are projected to fall in half by the end of the President's first term compared to the deficit inherited by the Administration when it came to office in January 2009. Altogether, the policies in the Budget would reduce the deficit by $2 trillion over the next 10 years, begin to address the key contributor to the Nation's long-term fiscal short-fall by proposing health savings measures that could help "bend the curve" on long-term health costs, begin the process of reforms to improve how government works, and, finally, make key investments that would provide much-needed jobs now and boost long-term economic growth

The country faces grave challenges, both in terms of its short-term economic health and its long-term fiscal future, and working our way out of these difficulties will not happen overnight. The policies proposed in this Budget and those enacted last month in the Recovery Act represent an important first step on the path back toward economic and fiscal health. I look forward to working with you in the weeks and months ahead to continue the process of addressing the challenges facing our Nation.

Chairman RANGEL. Thank you.

There has been some questioning by the Ranking Member as to you not requesting the full amount but merely suggesting a downpayment, as it relates to the cost of health reform. I would have considered it to be an affront if you were to tell us how much it is going to cost before you even start the program.

How could you more effectively give us a heads-up as to the direction in which you are going?

Mr. ORSZAG. Well, again, the whole theory there, the purpose was to put a significant downpayment on the table, which we have done, $634 billion, to get the process started and avoid the mistake that has sometimes occurred in the past in which we come to the Congress with, you know, "Here is the health care plan; please pass it." We want to work with you both on the benefit design side and on any additional funding that will be required, which we fully admitted and clearly stated in the budget document.

Chairman RANGEL. And it would seem to me that it would be an affront to this Committee, whether we had Republicans or Democrats, if the Administration would just come and give us a guesstimate as to what we have to do. In a sense, you have to work with us in order to achieve these national goals, don't you?

Mr. ORSZAG. Not only do we have to, we want to.

Chairman RANGEL. So there may be a lot of questions that we have to help provide answers to in the future. But I personally think that you are going about it in a way that is more comfortable for us as a Committee and as a Congress.

Tell me this. There has been serious accusations made that you intend to raise more money from the Tax Code than we have been able to see in recent history. How is that statement consistent with the Administration's claim, and I will support, that you intend to reduce the taxes for 95 percent of the taxpayers?

Mr. ORSZAG. Well, there has been a lot of confusion sown over the revenue proposals, so let's just discuss them very frankly.

There are a set of revenue changes that take effect in 2011 and thereafter. For 95 percent of working families, they would experience a net tax cut. For the top 2 percent of American households, they would experience a return to the marginal tax rates that they experienced during the nineties, which I don't think I need to remind you was a very good decade for economic growth, the stock market, and overall performance.

So we are talking about some rebalancing. There is some shared sacrifice that is required. But it occurs after 2011. Ninety-five percent of families get a net tax cut. And the 2 percent of top earners, who have done very, very well over the past several decades, are asked to pitch in a bit more, like they did in the nineties.

Chairman RANGEL. Well, we would not be raising their taxes. Those who provided the extreme beneficial tax relief for them, they were the ones that decided that those provisions should expire in 2011. I assume that was intelligently made because it would depend on the state of the economy in 2011. So I don't see how we can be accused of a tax increase, even on this small number of people, if all we are doing is extending the consideration of those who gave them the benefit to say, now let's see where we are. And, as you pointed out, we certainly are nowhere near where we were during the times that they got the benefit.

So I would like to believe that we are not talking about raising taxes for the rich, but what we are doing is providing tax decreases for the rest of the taxpayers. Is that a correct assumption?

Mr. ORSZAG. We are providing a net tax cut for 95 percent of working families, yes.

Chairman RANGEL. I yield to Mr. Camp.

Mr. CAMP. Well, thank you, Mr. Chairman.

Director Orszag, when you were before the Committee on September 18, 2008, you stated in your testimony, and I quote, that "decreasing emissions would impose costs on the economy. Much of those costs will be passed along to consumers in the form of higher prices for energy and energy-intensive goods," end quote. And in your written testimony at that time, you said that, for a 15 percent cut in CO_2, the average annual household cost was roughly $1,300.

And since the President's budget assumes an 83 percent cut in CO_2, five times the 15 percent cut you testified to, what is your estimate of the average annual cost to families of this energy tax?

Mr. ORSZAG. I think you are doing an apples-to-oranges comparison. I believe the 15 percent probably was off 1990 levels. The 83 percent that is in the President's budget is off of 2005 levels, and it is by 2050. So I think those are very different concepts.

Mr. CAMP. What would be the average cost to families of the 83 percent cut in CO_2 in the President's budget?

Mr. ORSZAG. I don't have an answer to that because it is going to depend on how much we do in energy-efficiency investments, and it is also going to depend on the exact path that is adopted. We don't have a fully fleshed out cap-and-trade program, market-friendly cap-and-trade program. There are many different ways of hitting that carbon concentration by 2050.

Mr. CAMP. Well, I would just point out that the maximum amount received by anybody under the Make Work Pay is $800. So, at least under your old numbers, that is a minimum of a $500 tax increase. And, obviously, for seniors, college students, and the unemployed, they don't qualify for Make Work Pay, do they?

Mr. ORSZAG. They don't. I want to point out again——

Mr. CAMP. So they would receive the full effect of the energy tax.

Mr. ORSZAG. To the extent that there is additional revenue generated from the cap-and-trade program, as I noted in that footnote that you referenced, it would be returned to the American public as compensation. That could well include the folks who are not covered by Making Work Pay.

Mr. CAMP. Well, then I would ask that you get to this Committee in writing at a later time then what your estimate is of the increased cost to families of the energy taxes contained in this proposal.

Also, last summer, when there was a lot of concern that, as a candidate, President Obama then would propose a massive tax increase, and so two of his senior advisers then went to the Wall Street Journal and said that his tax plan would reduce revenues to less than 18.2 percent of GDP, or of our economy. That is the level of taxes that basically prevailed under President Reagan, and, I might add, that is roughly the 40-year historical average.

So then I was a little surprised when I saw this budget would drive revenues up to 19 percent of our economy by 2013 and all the way up to 19.5 by 2019. So, in the face of a recession, why would we have taxes be a greater amount of the economy when we are trying to create jobs and grow our economy?

Mr. ORSZAG. Well, we are not. Again, the revenue changes don't take effect until 2011 and thereafter, after the economy should be back on its feet——

Mr. CAMP. Do you really believe the economy will grow 3 percent in 2011?

Mr. ORSZAG. The vast majority—look, there is a lot of uncertainty about the economic outlook, but the vast majority of professional forecasters, Chairman Bernanke, the Congressional Budget Office itself, all suggest that the economy will be recovering by 2011.

Mr. CAMP. I don't believe Chairman Bernanke has made that statement that directly.

Mr. ORSZAG. We can check the transcript. I will stand corrected. But I believe that the Federal Reserve's economic forecasts reflect a recovery before 2011.

With regard to your underlying question, though, we have to remember, the fiscal condition of the Nation deteriorated dramatically relative to even when the President was campaigning. So, in the face of the deficits that we are inheriting, we are doing lots of things, including reducing spending, but also some revenue changes after 2011. And that will generate additional revenue coming from the top 2 percent of taxpayers and from corporations, while providing a net tax cut to 95 percent of families, after 2011.

Mr. CAMP. So you would agree that the 19.5 percent of our economy is higher than historical averages over the last 40-year period?

Mr. ORSZAG. I just don't think historical averages are that informative, given the situation that we currently face and an aging population. Yes, it is factually correct that, if you want to look at the historical average, the revenue share is somewhat higher than it was then. But then again, you know, we have rising Medicaid and Medicare costs which we are trying to address, we have rising Social Security costs which we are trying to address. The situation is much different than it was in 1960.

Mr. CAMP. And that certainly is a contradiction to what those senior advisers said would happen before Mr. Obama was elected President.

Mr. ORSZAG. The situation has changed, and we have had to just adjust.

Mr. CAMP. All right.

Thank you, Mr. Chairman.

Chairman RANGEL. Thank you.

There are three votes on the floor. We will adjourn until then. It should be about 20 minutes. And Members will be recognized based on their return to the Committee to ask questions.

We won't be that long.

Mr. ORSZAG. Okay, I will be here.

[Recess.]

Chairman RANGEL. The Committee will resume. I apologize for the interruption, and recognize my dear friend from Michigan, Mr. Levin.

Mr. LEVIN. Thank you, Mr. Chairman.

Dr. Orszag, I thought the back-and-forth between you and the Ranking Member and others was a constructive discussion, the kind we need. And I must say, I thought the earlier remarks that talked about, on the part of the witness or those you represent, in terms of dishonesty or not telling the whole truth, was not constructive. And I don't think it is helpful to use those terms if we are going to try to build some bipartisan support.

The facts do matter. And I wanted to ask you, one of the facts that came up related to the estimate as to the percentage of gross domestic product represented by taxes. And there is a reference to a figure of, I think, 19.3 percent. The CBO has estimated and I think we estimated President Bush's last budget.

Do you know offhand what the figure was that was estimated that revenues would be the percentage of gross domestic product? Do you know that figure?

Mr. ORSZAG. Yes, sir. In the CBO re-estimate of President Bush's final budget, the revenue as a share of GDP in fiscal year 2018 was 19.2 percent.

Mr. LEVIN. And what is the estimated figure for the budget that you had presented?

Mr. ORSZAG. 19.3 percent.

Mr. LEVIN. So there is a difference of one-tenth of 1 percent.

Let me just ask you, if I might, about health, energy, education and those investments, because there isn't, I think, enough focus. And sometimes you or others have been asked, why are we investing in energy and education and health care rather than simply seeing about a recovery and the immediate impact on jobs? And I think that question becomes all the more salient because of the report today that came out from Families USA that says that, at some point in the years 2007 and 2008, 86.7 million Americans were uninsured at some point.

So, you know, take it on directly so that our constituents, so this whole Committee and, really, America understand, why these investments proposed by the President in areas of health, education, and energy?

Mr. ORSZAG. Let's take health care for example. Health care is not only the key to our long-term fiscal future, as illustrated by the graph showing that it is the key driver of our long-term fiscal gap, but the effects are much more immediate. Workers are experiencing much lower take-home pay today because of the cost of their employer-provided health insurance, which reflects an inefficient system.

They are paying higher tuition for their kids to go to college because State government budgets have to accommodate rising health care costs. As a result, State governments have cut back on support for higher education, and the result has been upward pressure on tuition and painful cutbacks at State universities.

We need to act this year to start bending the curve on health care costs, not just for the Federal Government, but for our businesses and our families and our State governments also.

Mr. LEVIN. And do the same with education, because there is a major investment in education.

Mr. ORSZAG. There is. All of the evidence suggests, in terms of life opportunities, the best thing that we can provide our kids is a good education. That means well-qualified teachers, it means access—I am sorry, I should back up. It means access to a high-quality set of early education. The budget doubles Early Head Start. It means high-quality primary and secondary school. And it means allowing kids to go to college.

Mr. LEVIN. And there is immense, I mean, there is considerable funding for training and retraining, is there not?

Mr. ORSZAG. There is. I mean, let me just take higher education for a moment. The budget proposes to make secure the funding for Pell grants, in part so that—and also, by the way, to simplify the process of applying for financial assistance. Right now, to apply for a Pell grant, you have to fill out a form that is more complicated than a tax return. That shouldn't be the case. We can dramatically simplify the forms.

And we can also provide secure funding for Pell grants so that low- and moderate-income kids in 9th grade or in 10th grade can aspire to go to college, knowing that that assistance will be there for them. And that will provide a strong incentive to stay in school, work hard, and enroll and then stay in college.

Mr. LEVIN. Thank you.

Thank you, Mr. Chairman.

Chairman RANGEL. Okay, the Chair recognizes Mr. Herger.

Mr. HERGER. Thank you, Mr. Chairman.

Thank you, Mr. Director, for appearing.

I want to preface my remarks by saying that, as Republicans, we very much share the President's goal of ensuring that every American has access to affordable, high-quality health care. And I hope that we can work together to achieve this objective in a way that recognizes the unique ability of markets to bring about cost savings innovations.

Having said that, I have serious concerns with the proposed $634 billion health reform fund. As Senate Budget Chairman Kent Conrad recently observed, quote, "With the amount of money our country is already spending on health care, it is very hard for me to understand why the answer is to put more money into the system," close quote.

Mr. Director, the budget contains virtually no details about what the $634 billion will be used for but proposes to take $283 billion in savings from Medicare to fund it. This is particularly troubling given that recent estimates place the bankruptcy date of Medicare's hospital insurance trust funds as soon as 2016, 3 years earlier than last year's projection.

We need to shore up the trust fund now. And I hope this proposal is not an indication that the Administration will make a habit of raiding the Medicare trust funds to pay for non-Medicare initiatives.

So my question to you is, given the dire condition of the Medicare trust fund, shouldn't any savings resulting from Medicare reform be used to either protect or improve this critical program?

Mr. ORSZAG. Congressman, our proposals would extend the life of the trust fund by 2 years.

Secondly, let's talk about where those savings come from. The bulk of the savings comes from taking an existing system in which you have fixed prices for private insurers to offer Medicare coverage that is estimated to cost the Federal Government $1,000 more per beneficiary than enrolling those same beneficiaries in traditional Medicare and replacing that system of fixed benchmarks with subsidies to providers with a competitive bidding process in which private firms would bid for Medicare business.

I think that is very pro-market. And so, to your first point, I view that as being an enhancement of the market in health care. The way to promote competition and capitalism is not to funnel billions and billions of dollars in subsidies that are not consistent with market competition.

And then, finally, I would say, there are a variety of proposals included in here that will strengthen Medicare and make the program, in addition to extending the trust fund by 2 years, make it a more efficient and effective provider for beneficiaries so that they get higher-quality health care.

I will give you an example. We have incentives for hospitals to take better care of beneficiaries after they are discharged from hospitals. Right now, almost 18 percent of Medicare beneficiaries are readmitted to the hospitals within 30 days of being discharged. Many of those readmissions could be avoided if hospitals took proper care of beneficiaries after discharge.

I don't think any of us, having gone through a hospital episode, want to be readmitted to the hospital within 30 days. So, to the extent that we can provide incentives for higher-quality care, reduce those readmissions, we not only strengthen the finances of Medicare but I think we also help beneficiaries and patients.

Mr. HERGER. Mr. Director, again, how do we lengthen and strengthen Medicare so it is not going bankrupt so quickly, 3 years sooner, if we are using that money that we are saving in another area outside of Medicare, is my question?

Mr. ORSZAG. When we reduce——

Mr. HERGER. In other words, shouldn't we be saving? If we are going to save $283 billion, shouldn't we keep it in a trust fund that is already going broke?

Mr. ORSZAG. And we do. Again, the trust fund is extended by 2 years.

Let's take the $177 billion—$177 billion—in subsidies to private insurance companies—those are subsidies that are generated by this fixed-price approach to paying private insurers to cover Medicare beneficiaries. When we save that money, that extends the life of the trust fund. So that money will help to restore solvency to Medicare.

We will also drive down premiums through the Part B program for all other beneficiaries. We pay for those subsidies both through a trust fund that would be exhausted sooner than otherwise and through the rest of elderly beneficiaries paying higher part B premiums than would be the case without that kind of subsidy.

Mr. HERGER. So you are saying this $285 billion is not coming out of Medicare? It will be used in other programs?

Mr. ORSZAG. It will extend the life of the trust fund.

Mr. HERGER. Taking it out will extend the life, $285 billion?

Mr. ORSZAG. Reducing Medicare expenditures—and, in fact, not to get too wonky here, but——

Mr. HERGER. But, again, we are taking it out, as I understand it. Are you not taking that out?

Mr. ORSZAG. We are saving money. Reducing expenditures extends the life of the trust fund. And, in fact, not to get too wonky about it, but if we were to take that same money and put it all back into the Medicare Program, then there would be no effect on the trust fund, as opposed to extending it as this proposal does.

Chairman RANGEL. Thank you.

The Chair recognizes Dr. McDermott and thanks him so much for negotiating us through this complicated but necessary budget.

Mr. MCDERMOTT. All right, thank you.

Thank you, Dr. Orszag.

I wanted to thank you for that chart that you put up and brought in here. On page 11 of your testimony, you said what many of us from the Northwest have always said, and that is that we need to look at more cost-efficient areas of the United States and implement the practices at a national level. I think if we brought the rest of the system down to where we are in Oregon and Washington, there would be no problem with the trust fund. So I think that it is important that you point that out.

But there is an issue I want to raise with you, which I think ought to be considered in any further proposals you make to the Congress. The Administration needs to address the serious crisis in the primary care health care workforce. And I would like to see the Administration propose a comprehensive strategy for creating primary care physicians. We need a steady, predictable stream of primary care providers if we are going to meet the challenges of providing health care to the entire population. We can't do it with our present workforce.

We need to get medical students committed to primary care before they are overwhelmed with debt and start making decisions based on debt at the end of their training. Health Service Corps and all those things are good, but we need to get them before they get into the debt. We need them to think about primary care throughout their entire medical training, not just as an afterthought.

Now, today, we have 45,000 medical students currently attending public universities and medical colleges. The average cost of tuition at these schools is $20,000. Now, that means, for $1 billion a year, you could guarantee a steady stream by making medical school free. Let medical students sign up at the beginning, they accept 4 years of tuition, and at the end they owe 4 years of work in the primary care fields. If you did that, you would see a dramatic change in what is going on in medical care today.

I am a physician. I was trained in medical school when medical school was almost free in the State of Illinois, $800 a semester. Today, medical students come out $150,000 or more in debt. And they make decisions on how to pay off their that debt, not to go to an underserved area in rural North Dakota or in central-city New York.

And it seems to me that, if you are going to do this—and you say that we want to get a lot of savings out prevention and coordinated care and comparative effectiveness and integrated care, all those things, you are not going to get it if it is all delivered by specialists. If you come out of medical school $150,000 in debt and you say, should I go to a primary care place or should I go become a specialist—people go to specialists, they overutilize, which is why you have the situations across this country.

And I wonder if you have even considered where you are going to get the physicians to deliver this universal health care system across the country. I would like to see a billion dollars a year put into a program like this. And I would like to hear your comments on it.

Mr. ORSZAG. Well, first, thank you very much for raising it.

That variation that you see is highly correlated with the ratio of specialists to primary care physicians, with the higher-cost areas having much higher ratios of specialists to primary care physicians.

There are many things that can be done to encourage more primary care physicians. For example, I would hope that, as we work to reform the sustainable growth rate formula and the way that we reimburse physicians under Medicare, one of the things that might result from that is stronger incentives for doctors to enter primary care in the first place.

And I also agree, beyond that, with you that there is a lot more that can be done at the first stage of things, when students are in medical school, to encourage primary care physicians. Because you are absolutely right, that has been shown to be one of the more effective ways of delivering high-quality, lower-cost care.

Mr. MCDERMOTT. I think if you consider an average kid—and I came from a family where my family didn't have any money to help me through medical school. And if you put somebody like that, a poor kid, a middle-class kid, into school and begin the process of loading him down with debt and offer him a way out at the end, you change his or her thinking. Doing it at the beginning makes much better sense, because then he is thinking or she is thinking, "I am going to spend my time in rural Illinois, not in Chicago," and it basically changes his mindset or her mindset and makes them a much better primary care doc when they get out there.

I hope you will look at it, because it is only $1 billion out of the $634 billion you are setting aside. I would like to have it considered.

I yield back the balance of my time.

Chairman RANGEL. How much does it cost to train an infantryman, you know, for 3 or 4 years?

Mr. ORSZAG. To train—I am sorry?

Chairman RANGEL. A Marine or a serviceman a combat person, how much does it cost to train them to defend their country? Do you have any idea?

Mr. ORSZAG. I could guess, but I would rather not do that.

Chairman RANGEL. Well, I want to join with my colleague here. It just seems to me that if we are talking about saving lives, we are also talking about saving money. And if people can't afford to provide the service we need, then we have to make certain that they don't owe us, that we owe them for what they are doing.

It just seems to me that we are doing the same thing for teachers and all of those that are going to make this a healthier, better-educated America. So having to have a person that is trained to decide whether they are going to service the poor or whether they have to pay their tuition, to me, doesn't make a lot of economic sense.

So I would like to join with my colleague from Washington and see what we can work out, so that a person might get paid for doing the right thing. Okay?

To my veteran friend from Texas, Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman.

Director Orszag, hi.

Mr. ORSZAG. Hi.

Mr. JOHNSON. One line in the President's budget is an issue you and I have talked about a number of times, physician-owned hospitals.

Mr. ORSZAG. I remember.

Mr. JOHNSON. So do I. The chairman knows I strongly believe these facilities play an integral role in our health system by providing high-quality, efficient care. But the Administration needs to realize their opposition to these facilities comes at a time when we need them more than ever. They employ highly skilled workers and are engines in their local economies. This policy would have a devastating effect on these facilities that employ, invest in, and serve their communities when we need them the most.

What I find most interesting about this policy in your budget is the score for this provision. There is an asterisk next to this policy change in the budget; what does that mean?

Mr. ORSZAG. That means that the actuaries are still evaluating the literature that you and I have spent so much time reading and discussing. And we will come back to you when that review is complete.

Mr. JOHNSON. Well, I think you have put something out there that it is less than $50 million, is that true?

Mr. ORSZAG. I would not necessarily say that, at this point. Again, the Congressional Budget Office has conducted a review of the relevant literature. The actuaries are doing the same thing. We will be back in touch. We will have many more of those meetings——

Mr. JOHNSON. What you are telling me is you put the budget out without knowing the numbers.

Mr. ORSZAG. No. What I am saying is we had 5 weeks to put together this budget, and this is a proposal that the Administration supports. But, as you know from our discussions, there is a complicated literature about the impact. I think it is fairly clear there will be some savings, but the actuaries wanted to conduct their own analysis of what those savings would be.

Mr. JOHNSON. Well, we were told $50 million or less. And, you know, you sent me letters in the last Congress when you were in CBO that you assigned a score of $2.9 billion to that. Can you tell me which number is correct?

Mr. ORSZAG. Again, I want to defer—I want to allow the actuaries to do their work. You and I have been through that literature in painstaking detail. So I have my own personal view, but let's let the actuaries do the work that they are supposed to do.

Mr. JOHNSON. Okay. So you don't know at this time, is that what you are saying?

Mr. ORSZAG. That is what I am saying.

Mr. JOHNSON. Okay. I think that we ought to treat all workers fairly, and I know you do too. And, you know, the President's proposal requiring State and local governments to report on those receiving pensions from work outside of Social Security——

Mr. ORSZAG. Yes, sir.

Mr. JOHNSON [continuing] In January, I joined Congresswoman Eddie Bernice Johnson to host a meeting in Dallas of Texas teacher retirement organizations, my constituents and folks from Social Security. There we talked about the complex business of integrating Social Security benefits and retirement plans from work outside of Social Security.

I hope we can do more work together to increase fairness, like, for instance, pass Kevin Brady's bill affecting the windfall elimination provision. Do you have any comments on that, where you all stand on that issue?

Mr. ORSZAG. I look forward to working with you on any potential changes, but what I want to make clear is, while there are laws on the books, we are going to try to implement them as effectively as possible. So if the law says X, we are going to try to make sure that X is what happens, which is the intention of the provisions that you are referring to.

Mr. JOHNSON. Okay. Turning to Medicare and Social Security, we applaud the President's commitment to securing the future of those two programs. However, while the President's budget proposal asserts the President is committed to ensuring Social Security is solvent and viable for American people now and in the future, it proposes no significant steps toward achieving that goal.

Similarly, the President's budget proposes some significant reforms to Medicare which would provide a small Band-Aid but then reverses course by proposing to spend the Medicare savings.

I think we have to protect both of those programs. And I want to know what you think about how and when we are going to resolve the Social Security problem. And please be specific, if you can.

Mr. ORSZAG. Sure. If I can pull up my penultimate graph, I think what we are tying to do is first address the key problem for our long-term fiscal future, which is the rising cost of health care. That is what we are trying to get done this year.

It is also the case that Social Security faces a long-term actuarial deficit. That should be addressed.

We want to tackle the bigger problem first. And then, once we do that—and we hope that we will work together to get that done this year. But I think it is clear from that graph, if you were going to do one thing first, deal with the light blue area. The dark blue area is also an issue that needs to be addressed, but we want to do that in order, just looking at the map, deal with the bigger problem first.

Mr. JOHNSON. They are both broke.

Mr. ORSZAG. There are differing degrees of problems in the two programs. I think, again, the graph sort of speaks for itself.

Mr. JOHNSON. Okay. Thank you, sir.

Thank you, Mr. Chairman.

Chairman RANGEL. The Chair now would like to recognize the gentleman from Georgia, Mr. Lewis.

Mr. LEWIS. Thank you very much, Mr. Chairman.

Thank you very much, Mr. Director, for being here.

I want to follow the line of Dr. McDermott, dealing with the whole question of health care. You may have heard me say before that I believe that health care is a right and not a privilege. People should not have to choose between paying their rent and taking their sick child to a doctor. But this is the choice that is being made every day. And I am so pleased that the President's budget includes a reserve fund to make health care available to all Americans.

Can you please, this afternoon, share with us some of the ways in which the President intends to make coverage more affordable? Can you please tell us why it is so important to be sure that all Americans are covered?

And I ask for you, Mr. Director, for a moment, for just a brief moment, take off your budget cap, and I don't want you to talk to me about numbers. I know, in your position as budget director—I want you to just speak from your gut, why health care is so important. Is it something good in itself, that every Americans should have access to health care?

Mr. ORSZAG. I actually relish the opportunity to take off my green eyeshades, so thank you for giving that to me.

I think in all of our lives, including in mine, we have had experiences in which either a family member or we, ourselves, have experienced a problem in our health, and the whole world changes at that moment. If your parent or your sibling or your child, especially, faces a life-threatening disease, your entire perspective instantaneously changes and your priorities become very clear.

Without access to health care, too many people face the risk, not only of financial harm, but also of incurring unnecessary diseases and threats to their lives that wouldn't be the case if they just had a simple visit to the doctor or a vaccination or all the steps that we can already take to help them lead healthier lives.

You had asked, why is moving toward expanded coverage essential? It is essential not only for the moral reason and the, sort of, personal reasons that are clear, but also just—now I am putting my green eyeshades back on—if we don't move to a more universal system of health care, we are going to continue shifting costs around the health system, pushing on one part of the balloon here and having it come out over there, and unintended consequences.

So it is not only the beneficiaries themselves or the people themselves that would benefit from having improved access to a high-performing health care system, but it is also the functioning of that health care system itself would be better if we had universal coverage, so that we wouldn't be playing this hot-potato game of shifting costs around all the time and trying to move it to some other part of the system. That is inefficient, and it just leads to problems in the health care system itself. Mr. Lewis. Mr. Director, as director of the OMB, are you prepared to give it all you have got to push to make health care available for all of our citizens on your watch during this time?

Mr. ORSZAG. Let me be very clear. I want and the Administration wants and the President wants to get health care reform done this year. We absolutely should act now. Some people say this is a luxury, that we are facing economic difficulties, and health reform is a luxury. I believe that it is a necessity. If you are going to not only get more people into the system but also start to raise workers' take-home pay and lift the burden of excessively high health care costs, address this key, the key to our fiscal future, rising cost per beneficiary, the time to act is now. So absolutely is the answer.

Mr. LEWIS. I thank you, Mr. Director.

I yield back.

Chairman RANGEL. Thank you, Mr. Lewis.

I now want to recognize Richard Neal.

In putting together the tax reform package and making it revenue-neutral, you were very careful to cut out of the Code those uneconomic credits and preferential treatment that was there. It looks like the Administration has indirectly applauded your effort, except what we used for the pay-fors they are using themselves, so you might want to see how we can work tax reform with health care reform.

Mr. NEAL. Thank you, Mr. Chairman. Thank you for your nice words as well.

The President's budget proposal addresses the issue of the automatic IRA.

Mr. ORSZAG. Yes, sir.

Mr. NEAL. Phil English and I did that bill, well met, well accepted. The Heritage Foundation and the Brookings Institution, they all offered their support. Why is it so important?

Mr. ORSZAG. This is a great example of, on a bipartisan basis—it is not only David John at the Heritage Foundation, and Mark Iwry at the Brookings Institution; it is also Marty Feldstein at Harvard and Rahm Emanuel now at the White House—it is agreement that we can help American workers save by making it easy and simple. That is exactly what the automatic IRA does. It creates an easy payroll deduction IRA, no fiduciary liability for the employer, an easy way for workers to save if they want to. They can opt out. But for many of us, we have busy lives and young kids, whatever, and being presented this massive book by your employer, and here is what you need to do to sign up, does not work. If you want to read through the book, great. But I think a lot of us just want something that is good for us, i.e., some money being set aside, to happen in a simple and automatic way.

Mr. NEAL. And helping to create demand as well?

Mr. ORSZAG. It will lead to better financial security for American families.

Mr. NEAL. As Chairman Rangel duly noted, you are proposing some major changes in the Code. In terms of an agenda timeline, what would it do in terms of including fundamental tax reform?

Mr. ORSZAG. Obviously, there are many important things that we need to get done. As I mentioned, we want to get health care reform done this year. Tax reform is also important, but at least in terms of initial focus, we are trying to focus on health care, energy and education. Tax reform is crucially important. But we would like to get those things done first.

Mr. NEAL. The budget embraces the philosophy of rewarding and encouraging work by reducing the tax burden on working families, and over the last few years, we have encountered a number of proposals that would not have lessened the burden on labor income but rather lowered it on investment income with the argument that some tax cuts pay for themselves.

Mr. Orszag, is it your position or do you agree with the assertion that a tax cut can pay for itself?

Mr. ORSZAG. No, I don't believe there is any credible economist from either political party who has claimed that tax cuts pay for themselves. In certain situations, tax cuts can generate, as can investments in education or energy or health care, some additional economic activity, and that can offset part of the cost, both for the tax cut or for investments in something like education. But it is nowhere near complete. Tax cuts do not pay for themselves.

Mr. NEAL. So, at some time, there is one tax cut that might be better than another?

Mr. ORSZAG. Yes.

Mr. NEAL. But they don't pay for themselves?

Mr. ORSZAG. Correct, but there needs to be symmetry. Investments in education also generate economic activity, which then generates revenue and offsets some of the initial costs of investing in education.

Mr. NEAL. Thank you very much.

Chairman RANGEL. Thank you.

And now the Chair looks forward to hearing Mr. Ryan explain to me again why a 95 percent tax cut should be considered for purposes of the budget as a tax increase.

I yield to Mr. Ryan.

Mr. RYAN. Isn't Mr. Brady ahead of me?

Mr. BRADY. I think so, but go right ahead.

Mr. RYAN. I would be happy to answer the question, but I don't want to pass over Kevin.

Chairman RANGEL. I am so sorry.

Mr. BRADY. The chairman is going by good looks, apparently. I hate when he does that.

The foundation of this budget is the economic forecast for the next 2 years, especially the next 2 years. It appears to me that this budget is giddily optimistic with projections that really mask what I believe will be a $2 trillion deficit this year, much higher burdens of debt in future years. I hope that you would revise them to more realistic numbers that we can all deal with because we all share the need for an honest budget.

Second, this budget declares an all-out war on American energy companies, both traditional companies which invest billions of dollars into our deep ocean waters and the mom-and-pop independents that drill 90 percent of all of the wells here in the United States. And the result of that is we are certain to outsource American energy jobs and grow dangerously more dependent on foreign oil. The tax increases in this budget, I know for a fact, will punish companies who produce energy jobs in the United States. It will starve capital for independent companies, those who are producing 80 percent of all of the natural gas in the United States.

I think you will see that drilling shrink by 25 percent as a result of this budget, should it pass. It is actually going to harm our bridge to renewable energy because wind and solar can't meets its potential without natural gas as its backstop, and it is going to drive up the cost of manufacturing. I don't think that it makes sense to shoot holes in the traditional energy boat in which we are riding as a country in the hopes that a renewable boat will come along in 10 years. We need to be encouraging both.

But the question I have came from your testimony. You have said, and so did Treasury Department Secretary Geithner, that this Administration has inherited a $1.2 trillion deficit. That is accurate. The question is, from whom have you inherited it? It seems to me, last year, the President could only spend the money Congress sent him. We hold the purse strings. This Congress didn't even send the President spending, most of the spending bills, because they were afraid he would spend too little.

The first financial rescue plan, bailout one, as commonly called, was proposed by the President, but Democrats provided two-thirds of the votes for that. Democratic leadership begged the President to do the auto bailout, and then the Obama transition team requested bailout number two, you were there, and he readily did that.

So isn't it more accurate to say that you have inherited a $1.2 trillion deficit from President Bush and the Democrat-led Congress?

Mr. ORSZAG. I think most of the cause of that expanded deficit reflects the economic crisis and steps taken to try to address it. So we are inheriting it, yes, from policymakers.

Mr. BRADY. But the economy doesn't send the President spending bills, does it? This Congress sends the President spending bills.

Mr. ORSZAG. The majority of the Federal budget is not determined by that annual appropriations bill. Instead, that deficit is driven mostly by what is happening, especially on the revenue side, which responds directly to the economy. The reason that revenues are only 15 or 15 and a half percent of GDP this year is because the economy is so weak.

Mr. BRADY. So you are saying it is inaccurate that you have inherited this deficit from both President Bush and the Democratic Congress? That it is not true?

Mr. ORSZAG. That is true to some degree, but I am saying that it is the economic crisis that has caused the bulk of the increase in the deficit.

Mr. BRADY. But the spending, the bills that the President spends himself come from this Congress, and then this Democrat-led Congress provided a number of the votes for the key drivers of the extra costs in our deficit, is that fair?

Mr. ORSZAG. Well, that is true, but again, nondefense discretionary spending in 2009 will be 4.1 of the economy. The deficit we are inheriting is 9 percent. The differences on nondefense discretionary may have been 0.1 or 0.2 percent of GDP, so the point is that the bulk of that deficit is coming because revenue has declined sharply as the economy has slowed down and because other forms of spending, unemployment insurance, what have you, automatically go up, and because there have been interventions, including for financial stabilization, that were necessary to help mitigate the crisis. Very little of it has to do with any disagreement over the level of nondiscretionary spending.

Mr. BRADY. Thank you, Director.

Chairman RANGEL. Mr. Tanner is recognized for 5 minutes.

Mr. TANNER. Thank you very much, Mr. Chairman.

I have one quick question, Director, which has to do with Social Security. As the chairman of the Social Security Subcommittee, we are concerned about the backlog. You have some money, 10 percent or so, in there for that. Do you have estimates on how that will reduce the backlog? And also we have problems with adequate resources for the periodic review of people who are on it. Could you address that?

Mr. ORSZAG. The budget includes significant funding for program integrity and other efforts at the Social Security Administration to work that backlog down. I don't have specific estimates for you as to how much it will work it down, but there is a very significant investment to do so, and we can get back to you with a quantitative estimate of what the impact would be.

Chairman RANGEL. Thank you.

In order to bring some balance to the Members here by party, I will, with the consent of the Ranking Member, start calling two Democrats, based on their attendance, to Republicans.

And so I would like to yield to Mr. Lloyd Doggett of Texas.

Mr. DOGGETT. Thank you, Mr. Chairman.

And thank you, Dr. Orszag, for your important work on this budget.

I am pleased to see that you have included a recommendation to make the American Opportunity Tax Credit, which I authored in the economic recovery legislation, to make that permanent. I do think that the Administration understands that, to get economic recovery, we need educational advancement.

I am also pleased that a bill that I first testified on from where you are sitting a decade ago almost to the day to codify the economic substance rule is in your recommendations so that these deals that are done solely to dodge taxes are no longer countenanced.

And yesterday afternoon, I asked you about this in the morning, but I was very pleased that Secretary Geithner endorsed the Stop Tax Havens Abuse Act that Senator Levin and a majority of the Members, the Democratic Members, of this Committee have introduced because this whole question of international tax dodging is extremely important.

The question of climate change and global warming, it seems to me that some of our folks have been focused not so much on Paul Harvey but another radio commentator named Rush Limbaugh in wanting the President to fail on this issue, and that has been characterized in every hearing we have had on the subject here.

Yesterday in the Budget Committee, in response to a question I had, you described climate change and global warming as "the key threat to our planet." And you have just said in response to Mr. Lewis that that, along with health care, is one of the issues that you want to address this year. Why can't we just wait and do it later?

Mr. ORSZAG. As in most difficulties in life, the longer you wait, the harder it becomes. This is a problem that just grows steadily more severe over time. And the longer we wait, the harder it will be for us to have the technologies in place to improve energy efficiency. Again, let me step back and just emphasize that, in our proposal, we have $15 billion a year in investments in energy technology, in completing the electricity superhighway that will move clean sources of energy to our population centers, in new ways of harnessing wind, solar, biomass and other forms of energy. To finance that, along with tax relief for American families, we have a market-friendly cap-and-trade program. So it is not only that we would fail to start addressing this growing threat to the planet; we would also not have the funding available to finance energy efficiency investments and the tax relief that we are proposing in a fiscally responsible way.

Mr. DOGGETT. There was a suggestion that you were not being sufficiently forthcoming in describing all of the costs and revenues to be had through a cap-and-trade system and all of the costs associated with this. Isn't it also accurate that those who basically propose to do nothing about climate change will bring to the economy very significant costs from failing to address what you have described as the key threat to our planet?

Mr. ORSZAG. Yes. If we don't act, we are going to perpetuate a dependence on foreign oil, a degree of energy inefficiency that is unnecessarily large because we are not making the investments in new energy technologies and a growing threat to the planet from rising greenhouse gas emissions which the National Academy of Science and other respected bodies have identified as something that needs to be addressed before it is too late.

Mr. DOGGETT. I know that your plans, and this is so different; in fact, it is a total reversal of the last 8 years because you have a plan that is based on science rather than just based on rhetoric and ideology, and we will be looking into your cap-and-trade system, as we have in the legislation that a number of us have introduced from the Committee, and continually reevaluating and checking it to be sure that it is science-based, not ideologically based.

Mr. ORSZAG. Absolutely.

Mr. DOGGETT. And let me touch on one last area, and that is the area of tax expenditures. I know that you will be submitting a more complete budget next month. One of the neglected areas that you focused on in some of your prior testimony, I believe to the Budget Committee, in your capacity at CBO previously, is that there are a few pages in there that are mandated to address tax expenditures.

Each year there is a focus, appropriately, on how much a given agency is spending. There is almost no focus and the Treasury Department has not fulfilled its responsibilities in the past to report to us in detail on tax expenditures. There is a tremendous amount of money, often for the same purpose; the American opportunity tax credit is a tax expenditure that I support, but I think it has to be continually evaluated, and that when we do our extenders here, we need more than the advice of two or three lobbyists and the staff of this Committee to look at that.

And I would just urge you both when you present the budget next month and then in the followup to that to continue to look at the tax expenditure side, not just the direct appropriations side.

Mr. ORSZAG. I agree wholeheartedly.

Chairman RANGEL. Mr. Becerra.

Mr. BECERRA. Thank you, Mr. Chairman.

Dr. Orszag, thank you very much. It is good to have you here in Committee.

I would like to focus on some of the components of the budget because I want to give you a great deal of credit for something that I know you did, but we need to give the President for it, and that is for being as honest as I think we can ask for anyone trying to put forward a budget of this size, this magnitude, with the conditions economically that we are facing. I know that some have said that this isn't necessarily an honest budget. I think it is as absolutely as honest as I have seen a budget in my 16 and a half years in Congress.

For example, you were honest enough to include the cost of the Iraq and Afghanistan wars in your budget which consumes a lot of money in the budget that, if you didn't include it, could be used to pay for something else. What is the cost that you have down for the Iraq and Afghanistan military operations?

Mr. ORSZAG. This year it will be $140 billion, and in 2010, it will $130 billion. Thereafter we have a placeholder of $50 billion a year.

Mr. BECERRA. So that is $100-plus billion on a yearly basis that we could use on a health care reform and other things if you didn't have it. You used to be the director of the Congressional Budget Office, CBO, which used to track budgets for the Congress. In previous Congresses before Democrats became the majority, and actually during the time of the previous Administration in office, did you ever find a budget that included the costs in the budget of the Iraq war?

Mr. ORSZAG. Not out in the outyears like this budget does.

Mr. BECERRA. The alternative minimum tax, which all of us agree, to a person, that it should not be hitting middle America because it was meant as a tax to avoid very wealthy people or corporations from avoiding any taxation. That, because of some quirks, no adjustment for inflation, now crept has down to the point where it is hitting a lot of middle-class Americans. How much does it cost in your budget to ensure that middle-class Americans are not hit by the AMT?

Mr. ORSZAG. More than $500 billion.

Mr. BECERRA. Was the AMT included in the budget in the long forecast?

Mr. ORSZAG. No.

Mr. BECERRA. So we are talking about half a trillion dollars that everyone agrees should not be allowed to occur because it would be a hit on middle-class America?

Mr. ORSZAG. All in, we include $2.7 trillion that previous budgets would have just assumed did not occur even though everyone knows, if we are going to have a grownup conversation about the budget, everyone knows that we are not going to let the alternative minimum tax take over the Tax Code.

So I am very confident that this is the most honest budget that has been presented to the Congress in a very long time.

Mr. BECERRA. So you include the costs of the wars and you include the cost of relief for middle class taxpayers, and you include something that is very important and that is the reimbursement under Medicare for physicians and hospitals so we don't cut them dramatically and they start to say it may not be worth it for me to provide Medicare services. That is several hundred billion dollars?

Mr. ORSZAG. Yes, sir.

Mr. BECERRA. And you do it in ways that make it more difficult for you to do the other things, including health care reform and all of the rest, so I want to applaud you for that.

We also hear that, on top of this tax cut that you are giving 95 percent of working Americans, tell me how you treat small businesses because there are a lot of folks who say we should be very concerned that this budget does not help a certain class of people? My understanding from reading over the budget is that small businesses in America, small business men and women in America, are going to benefit from your budget. I hope you can explain that.

Mr. ORSZAG. Absolutely. Let's be clear, because there has been a lot of conclusion that has arisen. In 2011 and thereafter, 98 percent of small businesses would not be affected by any of the revenue increases that we have. We do ask the top 2 percent of small business owners to contribute a bit more in order to rectify the course that we are on.

But the more important point—I started and ran and sold a small business—the more important point is the key thing for small businesses right now is to promote economic activity so that they have demand for what they want to sell and free up credit so that they can have the liquidity that they need to run their operations.

We are trying to promote economic activity through the historic Recovery Act that was enacted last month and that will help get the economy back on its feet, and we are trying $28 billion in loan guarantees for small businesses in this budget in order to start the process of getting credit flowing back to small business because if you go out and ask small businessowners, they are saying that they are starved of credit today.

Mr. BECERRA. That is my understanding, that most small businessowners make a $100,000 or $200,000, but not a lot more than that. So, therefore, the more we get this economy going again, the more we create the activity that requires them to sell more and buy more and employ more people. It is also good to know that you are protecting them as you are protecting workers when it comes to the tax treatment that you provide in this budget.

Thank you for that explanation.

I yield back the balance of my time.

Chairman RANGEL. The Chair recognizes Mr. Ryan for 6 minutes so he can take 1 minute to answer my question.

Mr. RYAN. I appreciate the indulgence.

Chairman RANGEL. It is always interesting to listen to you.

Mr. RYAN. A few points and then some questions. Let's talk honesty here.

Chairman RANGEL. How much more time will you need?

Mr. RYAN. Six minutes, I can bang this out.

It is honest that they are putting the AMT in the baseline because they are saying it is really the policy intention that we keep doing the patch. Okay, so let me ask you this: Using that same logic, is it honest to say we are going to have a surge in Iraq for 10 years? Did George Bush or Barack Obama say, we are going to have a surge for 10 years in Iraq? No, that is not honest. No one has said that, but that is what this budget baseline does.

Mr. BECERRA. Would the gentleman yield?

Mr. RYAN. No. I only have 6 minutes.

Mr. BECERRA. That is more than we had.

Mr. RYAN. And the notion that we are going to have a drawdown that creates some mythical $1.6 trillion savings is not honest. It is actually the biggest budget gimmick I have ever seen in a budget.

Now to the chairman's question, why do we say that this is not a tax cut for 95 percent of the American people? I want to answer your question. First, you have to pay taxes to get them cut in the first place, and the bulk of this money goes to people for whom it is a check in excess of their payroll and their income tax liability. According to the Joint Tax Committee.

Chairman RANGEL. The bulk of what?

Mr. RYAN. The bulk of that payment, the Make Work Pay tax credit goes in excess of your payroll and your income tax liability, so it is a net check from the government. It is a payment from the government in excess of your tax liability; therefore, it is not a tax cut, because if you get a tax cut, you have to pay taxes in the first place to get them cut.

Chairman RANGEL. And so the payroll tax——

Mr. RYAN. Exactly, payroll and income, according to the Joint Tax Committee, in testimony we had here during the stimulus legislation, 22 million households will now receive a net check from the government in excess of their payroll tax and income taxes. So this is not a tax cut. The bulk of it is spending.

Let me just make another point——

Mr. ORSZAG. Can I just——

Mr. RYAN. I will come to you, Peter. I am studying the joint tax spreadsheet.

This is my 10th year here. I have spent every year working on writing and trying to pass budgets. And I just want to sort of see if we can appreciate the enormity of the task before you, Peter, and just how huge this budget is.

Last year, the Congressional Progressive Caucus brought a budget on behalf of I think Congresswomen Lee and Waters to the floor of the House. The Congressional Progressive Caucus budget was defeated 98-322; 132 Democrats voted against it. This budget is so far to the left of the Congressional Progressive Caucus budget that, on an apples-to-apples comparison, the 9 versus 10 years, the Obama plan spends $2.8 trillion more than the Congressional Progressive Caucus budget. The Obama plan results in deficits that are $14.7 trillion higher than the Congressional Progressive Caucus budget, and I won't even get into the debt because the debt left to our children and grandchildren under this budget is so much larger than even the Progressive Caucus budget that you probably wouldn't believe me even if I gave you the numbers.

The question I want to ask you, Dr. Orszag, is with respect to your economic assumptions, using OMB's rule of thumb, if you took the Blue Chip consensus forecast instead of the OMB economic assumptions, which are the highest of any that we have seen, that would add an additional $758 billion to the deficit under your deficit stream. We are told that the Treasury Department says that, to have credibility in the credit markets, to keep investment concerns at bay, we need to bring the budget deficit down to 3 percent of gross domestic product. But if we take the Blue Chip consensus forecast, which is the consensus of most private forecasters, which these were released before we had this massive sell off in the stock market, which is a fairly ominous sign of things to come, we would never even get to 4 percent of GDP with our deficit; we would never even get close to 3 percent of GDP.

Let me ask you this: Do you have a plan B? If these rosy economic scenarios that you have in your projections don't pan out and if the private forecasters are correct, do you have a plan B? What are you going to do to get your deficit targets down and mop up this $758 billion in extra deficits that the Blue Chip consensus thinks your budget presents?

Mr. ORSZAG. Mr. Chairman, do I have 6 minutes to respond?

I will try to be more succinct than that. We need to get some facts straight first. That is just not how it is.

Mr. RYAN. What is not exactly how it is?

Mr. ORSZAG. Let's take, first—several things that were said. Let me just go through them point by point.

First, with regard to the Making Work Pay tax credit, table S–6 in the document shows, let's take 2013. The revenue impact is $64 billion. The impact on outlays, that is the refundable component, is $22 billion, and for some of those folks, they will owe payroll taxes. That is only the income tax impact.

Mr. RYAN. Can I ask you a quick question there? Are you not just extending the Make Work Pay tax credit as it passed in the stimulus package, or are you modifying it?

Mr. ORSZAG. We are extending it as it was in the stimulus package.

Mr. RYAN. Okay, in the stimulus package, the majority of the outlay was outlays, not—it was, and I can't remember the number off the top of my head, but it was I believe about $68 billion of the $147 billion was outlays according to Joint Tax. According to Joint Tax, the majority were outlay effects and not revenue losses. So there is a problem between your numbers and Joint Tax's.

Mr. ORSZAG. I would be happy to look at whatever numbers the Joint Tax Committee ultimately produces for this proposal. But, again, roughly a third or so is refundable, and I note, again, that doesn't take into account payroll taxes.

Mr. RYAN. It still makes the point that, therefore, it is not 95 percent of the American people.

Mr. ORSZAG. I would still count the Earned Income Tax Credit and other components of the Tax Code as providing a tax cut. So we can get into this semantic debate.

Let's now turn to the economic assumptions. Our assumptions were put together at the same time roughly that the Congressional Budget Office put together its assumptions. CBO's assumptions do not include the effects of the Recovery Act. Since that time, however, CBO has released an analysis of the Recovery Act. If you do an apples-to-apples comparison where you add the impact that CBO estimated for the Recovery Act to their forecast without the Recovery Act, you get numbers that are right in line with our numbers. So we are right in line with the CBO figures once you include the Recovery Act in the analysis.

Mr. RYAN. In your table S–8, if you see the Blue Chip consensus forecast, it says growth will be about 1 percentage point less over the next 5 years.

Chairman RANGEL. With all due respect, this is very exciting and entertaining, but Members are waiting.

Mr. RYAN. Did I blow through the 6 minutes already?

Chairman RANGEL. But I would suggest to you that where you have technical difficulties, if you get them to the Chair, I will get them to the Members, because it is always good to believe that you have a better hand when you are dealing with someone as dedicated to the process as you are, and I think allowing you this extra opportunity——

Mr. RYAN. I very much appreciate it, Mr. Chairman.

Chairman RANGEL. No, I think it is good for the Committee, but even more importantly for those trying who are trying to figure out a very complex bill. So I promise you, and I apologize to the rest of the Members, you get your debate before us, and we will make certain that it gets out there.

Mr. RYAN. I welcome the opportunity.

Chairman RANGEL. I look forward to it.

Do you think you have given—and you don't have to compare your budget——

Mr. ORSZAG. I look forward to working with Mr. Ryan.

Chairman RANGEL. Good. I am very sincere that we ought to really get in as many views as we can, and two 5-minutes doesn't really allow it. Before we pass this budget, you will have plenty of time to debate it.

Mr. Pomeroy.

Mr. POMEROY. Thank you, Mr. Chairman.

Just a couple of comments in response to my friend's questions, Mr. Ryan's questions. Having sat in this Committee for the same length of time Mr. Ryan has, I find myself absolutely staggered by some of his questions. He wants to accuse the Administration of using rosy scenarios to put a phony budget forward. Well, I would remind my friend Mr. Ryan about the rosy scenarios that undergirded the 2001 tax cut, a tax cut that played a principal role in reversing surpluses into steep deficits. We know that 9/11 followed that. We know that a recession was in the middle of that. And so it was completely staggering when 2003 comes around and they pass yet another massive tax cut, driving the deficits even deeper. And then they have Mr. Ryan talk about the calculation of troop numbers in Iraq as a budget gimmick, and he said, in fact, it was the biggest budget gimmick I have ever seen; I would just respond to the gentleman that I have seen a bigger budget gimmick, and that is fighting the war in Iraq without putting a nickel in the budget.

Mr. RYAN. Would you——

Mr. POMEROY. Oh, no I am not yielding to anything.

Not a nickel. We had a budget director sit at that table and say they couldn't project. They didn't know how much the war was going to cost, so nothing went in the budget for it.

Mr. RYAN. Would you——

Mr. POMEROY. No, I will not yield.

That was countenanced by the Member in his capacity as a Member of the Budget Committee, and it was countenanced by him as a Member of this Ways and Means Committee. That, I would suggest, putting nothing, not a plug nickel, in the budget for the war was a bigger budget gimmick.

Mr. RYAN. The Republican budgets did put the war in the budget.

Mr. POMEROY. I am not yielding time to the gentleman.

All right, now that I have that off my chest, let me get to the question before us.

Health care costs. It seems to me that core to this budget is a concept that these out-of-control health care costs are eating us alive. How does the budget propose to tackle them, and how would you assess the imperative of tackling them if we are going to try to get a handle on these staggering deficits?

Mr. ORSZAG. I think it is very clear that if we don't tackle rising health care costs, we are on an utterly unsustainable fiscal course over the long term. Period.

The way that the budget proposes to tackle them is to buildupon the Recovery Act. Again, I want to focus attention on this map. I don't think it has gotten enough attention.

There are large geographic areas of the United States that are delivering health care at much lower cost and higher quality than lots of other areas.

If you look across our leading medical centers, the Mayo Clinic, the last 6 months of life for Medicare beneficiaries costs $25,000 a year. At many other medical centers, it costs $50,000 or $60,000 a year on average. And quality, if anything, is higher at the Mayo Clinic. All that we seem to be getting in exchange for the additional cost that you are paying today through your Medicare tax is more tests, more days in the hospital, more visits to specialists, none of which actually seems to make the beneficiaries healthier.

We need to get at the heart of this variation, improve the efficiency of the health system, and that means health information technology. It means measuring what works and what doesn't. And it means greater attention to prevention and disease management. And it means altering incentives for providers, so they are not incented to provide more care; they are provided with incentives for better care.

Mr. POMEROY. So I think this is a critical point with the map on the disparity with expenditure out; we are seeing vast differences in where the spending is occurring, but we are not seeing people healthier in any particular way.

Mr. ORSZAG. Actually, if anything, the correlation goes the wrong way. That is to say, the higher cost areas have worst health outcomes than the lower cost areas.

Mr. POMEROY. So we can save considerable money, shore up Medicare for the long haul with impacting the health of people other than possibly improving it?

Mr. ORSZAG. That is right. Our key challenge is how to move forward to capture that opportunity. This budget, I think, is the most forward-leaning set of proposals. I am a member of the Institute of Medicine at the National Academies of Sciences. There has been a series of work that they have done trying to put forward pathways to a more efficient health care system. We are doing it. This budget embodies all of those recommendations, and if anyone else has other ideas, bring them to us because we want to move to a more efficient system that will reduce those disparities, reduce cost and improve quality and simultaneously put the Nation on a sounder fiscal course while also making workers better off. I don't see how we can possibly wait another year in starting that process.

Mr. POMEROY. I yield back, Mr. Chairman.

Chairman RANGEL. Mr. Thompson from California.

Mr. THOMPSON. Thank you, Mr. Chairman.

Mr. Orszag, I want to thank you for being here and for addressing some issues that I think are critically important for everyone in our country, specifically the attention that you have paid to health care, renewable energy, education and innovation. These are all job creators, and they are very important for the future of our country. It is, I think, high time that these were addressed in our country, and this budget does a good job at doing that.

I want to second my friend from Los Angeles Mr. Becerra's comments on the honesty and transparency of this budget. He mentioned the war funding that has not been in there in the past, the AMT that has not been in there in the past, and there are even smaller items, such as doctor reimbursement payments, that have always been absent, and everyone knew we were never going to cut doctors' payments by 21 percent, and yet those budgets didn't say anything at all about that.

On the area of health care and specifically the doctor reimbursement payments, you mentioned the longer we wait, the more expensive it is. If we roll back the clock, we could have done it for $50 million, and I think it is about a $300 million item in your budget, on that issue, along with rural and underserved areas and how we address health care in those areas and how we further improve preventive health care, something that I think is critically important, and there is a lot of room in Medicare and Medicaid programs to address those issues, and also the expansion of telemedicine. I would like to be certain that we can work closely together in making sure these address not only the issues, the health care issues, but also are reasonably understanding of the different areas that we all represent. I hope we can work together on that.

I want to mention, Mr. Doggett, I think, was eloquent in his compliments of you and the issue of global climate change and how we deal with the carbon capping issues. I want to point out that I was at a breakfast meeting today with various captains of industry and not the people that you would think that would be overly excited dealing with this. And I wrote down two interesting quotes.

One was: "I believe global warming is real, and it is caused by man." That was the CEO of General Electric.

The second one I thought was interesting, and, again, I quote: "We believe regulated carbon is the right answer." And that was the CEO of Duke Energy who also pointed out they are the third largest emitter of carbon. And so even they get it and understand we have to work on that. So your effort in this regard is very, very important.

In closing, the President's budget puts us on a path toward fiscal responsibility by cutting the deficit in half by 2013. I would like to hear from you. I would like you to explain the importance of cutting that deficit in half during President Obama's first term in office and why a small increase in spending as a measure of the GDP is appropriate in our current environment and how, in the end, it will come back to help us a great deal.

Mr. ORSZAG. Sure. The difficulty is that what is good for the next year or two while the economy is weaker is exactly the opposite of what is good over the medium term.

When we are facing the output gap, and remember I started with this trillion dollar gap between how much the economy could produce and how much it is producing each year, the key impediment to economic growth in that scenario is demand for the goods and services that firms could produce with their existing capacity. That is the whole point of the Recovery Act, jump start that aggregate demand, get the job machine back on track, which will take some time but we will help to start filling in that gap.

As the economy starts to recover, the key impediment to economic growth shifts from demand for how much firms could produce with their existing capacity to how rapidly we are expanding that capacity. And the problem with large budget deficits is they crowd out other investments that could be made to expand that capacity.

So we need to get our deficits down both to raise our future national income as the economy recovers. And one of the benefits that we enjoy in the current environment is we are able to issue significant amount of debt to deal with this crisis, to deal aggressively with this crisis. If we don't start tackling these rising health care costs and put the Nation on a sounder fiscal footing and go out 15 or 20 years, if we ever suffered from another economic crisis, we would have much less maneuvering room to respond at that point because creditors would not be willing to let us have that maneuvering room. It is a good thing that we have it, or the economic crisis would be much more severe than it already is.

Chairman RANGEL. The Chair respectfully recognizes Mr. Linder.

Mr. LINDER. Thank you, Mr. Chairman.

Dr. Orszag, nice to you see you again. You have said twice earlier in response to questions that any excess cap-and-trade revenues will be returned to the public fully. How?

Mr. ORSZAG. There are various mechanisms that could be put in place. The Tax Code could be used. The Social Security system could be used. There are a variety of ways in which compensation could be provided.

Mr. LINDER. You don't have any plan yet?

Mr. ORSZAG. We don't have any fully specified cap-and-trade plan, and so, therefore, we also don't have the fully specified compensation scheme.

Mr. LINDER. Is that revenue in excess of the $634 billion?

Mr. ORSZAG. The $634 billion is the Health Reserve Fund.

Mr. LINDER. Where is the rest of the cap-and-trade revenue going?

Mr. ORSZAG. I think we are mixing and matching. We have $15 billion a year for energy efficiency investments. We have the Making Work Pay tax credits. Those two things are financed by a Cap and Trade program.

Cap and trade may well raise more money, as we were forthright about in this budget. To the extent it does, those additional funds would be returned to American households through a variety of mechanisms that would need to be determined as we work with you on the legislative details of a cap-and-trade program.

Mr. LINDER. A year or so ago you were recorded as saying a carbon tax would be more efficient and effective than cap-and-trade. Do you still believe that?

Mr. ORSZAG. A carbon tax has certain efficiency aspects. Cap-and-trade could be made to be, as I think that document pointed out, can be made to have the same efficiency aspects, so it all depends on how you do cap-and-trade.

One of the key efficiency effects is to make sure that permits under cap-and-trade are auctioned, and the President is committed to a 100 percent auction of the permits. That is perhaps the most important efficiency impact from a cap-and-trade program because that gives you resources that can be used to either cushion the blow for consumers or do other beneficial things like these energy efficiency investments that under our budget would be funded out of the cap-and-trade revenue.

Mr. LINDER. Yesterday Secretary Geithner was here, and he said any tax hikes built into this budget will not take effect until the economy has fully recovered. You said earlier in your testimony that you believe the economy will be recovering in 2011, and so did Secretary Geithner. Yet, in your proposal, you say that the unemployment rate then would be 7.1 percent. The CBO says it would be 8 percent. Is 7.1 and 8 percent unemployment a full recovery? What kind of metrics are you using for full recovery?

Mr. ORSZAG. Well, you need to realize the labor market traditionally lags behind the end of a recession. That is to say, even after the recovery begins, the labor market remains weak and unemployment remains elevated and may even continue to increase for some period of time.

I think you can use a variety of markers. The National Bureau of Economic Research is the official arbiter of recessions, for example. An unofficial definition is the change in GDP growth, whether it is negative or not. They use, actually, a wider variety of indicators to demarcate the end of a recession, looking at industrial production and monthly income flows and a variety of other factors.

But you can look to, for example, the NBER business cycle dating Committee as one arbiter as to when a recession ends.

Mr. LINDER. That says a recession hasn't ended. Would the repeal of the tax cuts still go through——

Mr. ORSZAG. Well, I don't think it is constructive for me to start playing hypothetical games. Chairman Bernanke expects and the Federal Reserve Board expects recovery either later this year or early next year. The Blue Chip expects recovery either later this year or early next year. That is also what our budget is predicated on. The whole purpose of the Recovery Act, by the way, was to maximize the odds that that happened.

Mr. LINDER. But what you are saying is that the tax circumstances will not be changed by whether or not we are in a recovery?

Mr. ORSZAG. I don't think that it is constructive right now to start playing out all of the hypotheticals. Obviously, as the world evolves, so will policy. I would hope that we would all expect that to occur.

Mr. LINDER. Thank you, Mr. Chairman.

Chairman RANGEL. The Chair recognizes Mr. Kind.

Mr. KIND. Thank you, Mr. Chairman.

I want to thank the director for your time and patience and testimony here today and also for your service. Coming from CBO to OMB has not been the easiest task for any individual to have to assume under the challenges we are facing.

But let me just flesh out one area of your health care reform proposal that you and the President and the economic team are making, and I am absolutely delighted the Administration has focused so much time and attention on health care reform, which is long overdue, as you have stated here previously.

But some of the feedback that I am getting from back home is a rising concern that the talk about health care reform is just about expansion of coverage, making sure that every individual has access to affordable and quality health care. But what I see in your plan and what I hear from your testimony and what the President is also talking about is that a major portion of this is dealing with the exploding costs that we are going to face in future years.

When I am talking to my small businessowners or large businesses or family farmers or individuals, they want to talk about rising health care costs and what can be done on that front. In the recovery and investment package that we passed, there is a $1.1 billion program for a comparative effectiveness study, and I want you to explain a little more about why this is crucial in regards to health care reform because obviously a lot of aspersions have been cast on it, that this is going to be a form of rationing, that it is going to lead to socialized medicine and that it is only about cost rather than quality of outcomes. And I wonder if you can elaborate on the role that comparative effectiveness can provide in the reform proposal.

Mr. ORSZAG. Well, let me actually give you an example from my own life. I am a runner. When running the Marine Corps marathon a few years ago, I hurt my knee. The doctor suggested an X-ray, which was taken. And the doctor then suggested an MRI. I said, well, what is the likelihood that the MRI will affect your diagnosis, and he could not tell me because the evidence on the effectiveness or what the benefit is of applying an MRI to a, unfortunately, middle-aged male running marathons who hurts his knee does not exist. It might be a good idea; it might not be a good idea. Who knows? Repeat that time after time after time again, and we have a lot of services delivered in the United States that are not backed by any evidence that they work. Period.

The whole purpose of comparative effectiveness research is the simple thought that we should evaluate what works and what doesn't and then let the medical profession decide the best way of treating patients based on that evidence rather than guessing or simply perpetuating systems in which that is the way we have always done it here.

Too much of the medical care delivered in the United States is based on, that is what we have always done here or that is what the guy down the hallway does, rather than we know for your kind of condition and given the other characteristics that you have, the evidence suggests this is a good thing for you to do.

Mr. KIND. I think you will find a lot of support and a lot of kindred spirits, not only on this Committee but throughout the country, on this approach because it is already happening.

I hail from an area of the country in western Wisconsin where we are one of the lowest reimbursed places in the Nation but also one of the highest quality of care. The providers in that region have moved down this road in their day-to-day practices. To me, comparative effectiveness and moving to an outcomes-based reimbursed system isn't about cost or rationing; it is about rewarding what works and let us stop rewarding what doesn't work in health care. I think you have acknowledged in your testimony here today and in previous testimony that so much of health care funding right now is going to just utilization and consumption rather than what quality of care we are ending up with at the end of the day.

I happen to believe, and your numbers reflect this, too, there are huge cost savings in moving to that simple concept of rewarding what works in health care and stop throwing away so much that doesn't work. That, to me, is what comparative effectiveness and moving from a fee-for-service basis to an outcome-and-performance system is all about. If we are going to get a grip on these exploding costs, which is the name of the game for fiscal responsibility, this is the road that we have to go down. So I applaud you and the Administration for the initiative that you are taking, and I look forward to working with you on this concept.

Thank you, Mr. Chairman. I yield back the balance of my time.

Chairman RANGEL. Mr. Blumenauer, I overlooked you earlier, but you are now recognized for 5 minutes.

Mr. BLUMENAUER. Thank you, Mr. Chairman. It is a little hard to see, I know, on the extreme right wing here.

Mr. Orszag, I notice you start each of your testimonies with an appropriate country music reference. Yesterday I was pleased to hear you indicate that there is no right way to do the wrong thing. I thought that that was a very appropriate tenor to deal with the introduction of the budget. I join my colleagues in expressing appreciation for what you have put in the budget and how you and the President have advanced it. I think it gives us a much firmer footing.

We can quibble about details and argue about elements, but no one can disagree that this is a fuller, fairer, more comprehensive picture that gives us more running room. I appreciate it.

I want to reference one thing that we did that I spent a lot of time working on in the last Congress, a carbon audit of the Tax Code. As we are moving forward with climate change legislation, we are looking at tax reform; I hope that there is some way for OMB to be involved in this directive that we established last session to be able to make sure that we are able to coax out the information to give us guidance for looking at the big picture in terms of the impact as we are changing taxes. I wanted to footnote that if I could.

I have listened to my colleagues in this hearing and in prior hearings who are finding things that are hidden by being unable or unwilling to look at the big picture in the budget, trying to pull one element out that is a tax or a potential cost and somehow missing the big picture.

I am wondering if you could take a moment to reflect, and you have done this in reference to a couple of answers, but if you could think a little more comprehensively with us now and work with us in the future to look at the total effect of the budget proposal on not just tax reductions but health care, energy security, a potential carbon dividend, stability in energy costs for families, or small businesses, the vast majority of whom, 97 percent we think are under the $250,000 threshold, would see no change or a cut, with favorable tax treatment for small business tax, their energy costs and health care costs. Could you take a minute and talk about the big picture and how we might work with you so that the Committee gets the benefit of the big picture rather than trying to target one little sliver that sadly is misleading?

Mr. ORSZAG. Well, let me just first say, I want to speak directly to the footnote and honesty and forthrightness, because it is not just clarity in the numbers but also, even on page 21, where we were very clear about the way this proposal would work. So I actually disagree with the notion that there is anything hidden. It is very up front and clear, as it should be.

Now, with regard to the bigger picture, we are tackling the key problems that the Nation faces, not only in terms of a weak economy, but over the longer term in terms of education, energy, and health care.

If you are a working family, this budget will help your kids go to college through an expanded and easier Pell grant process and the American Opportunity Tax Credit; your home will be more energy-efficient because of the dramatic increase in weatherization efforts; your health care costs will be reduced, and therefore your take-home pay will be increased. And the Nation will be on a sounder long-term path. This is what business leaders, think tanks, everyone has long said we need to do. The time to do it is now.

Mr. BLUMENAUER. Thank you.

Finally, I wonder if you could elaborate on your Medicare Advantage competitive bidding proposal and how it will bend the curve. Can we, under your proposal, hold some of these Medicare Advantage programs more accountable, set standards, make sure that we realize that promise while we bend the curve?

Mr. ORSZAG. Absolutely. And let's actually focus that for a moment, because I think this really does illustrate the theory of the case that has been pervasive for many years now.

Medicare Advantage plans were given a fixed price that was 14 percent higher than covering the same beneficiaries under Medicare. They didn't have to compete for the business. They were given a benchmark that was set, by law basically, that was $1,000 per beneficiary higher.

There had been concerns about the way, if you put that much subsidy on the table, not surprisingly, problems arise. There have been concerns about the marketing techniques that insurance companies have used to enroll beneficiaries in Medicare Advantage—not surprising when that much money is on the table. There is no evidence that Medicare Advantage, for all that extra money, produces any better outcomes than traditional Medicare.

So we really come down to this question, what kind of a market economy are we talking about? Is it one in which billions and billions, $177 billion over the next 10 years, is funneled to insurance companies? Or should they be forced to compete for the business of providing coverage to Medicare?

That is exactly what we are proposing, competitive bidding for Medicare Advantage plans. Put in a bid, see if it is competitive, get paid that, and then let the market work to the extent it can.

Mr. BLUMENAUER. Thank you, Mr. Chairman.

And I appreciate your reaction, Mr. Orszag. I would like to work with you, because I think there is some evidence that there are some Medicare Advantage programs that actually are delivering. They are in low-cost, high-efficiency areas. I would like to reward that and not penalize the efficiency that might play an important role in the——

Mr. ORSZAG. That is exactly what we should be doing.

Mr. BLUMENAUER. Thank you very much.

Chairman RANGEL. The Chair recognizes Mr. Nunes and apologizes for the awkwardness of the delay.

Mr. NUNES. Thank you, Mr. Chairman. I appreciate that.

Mr. Orszag, yesterday before the Budget Committee, you talked about distortions in the energy markets, specifically related to oil and gas subsidies in tax treatment. I did some calculations overnight and came up that natural gas and petroleum subsidies are about 25 cents a megawatt—this is from the Energy Information Agency—and coal is 44 cents a megawatt.

Currently, solar, under the new Obama plan, stimulus package, has now skyrocketed to $24 per megawatt in subsidies and tax treatment, and wind is at $23 a megawatt. Are these market-distorting?

Mr. ORSZAG. I would first like to see the numbers, obviously. I would like to see the information upon which you are basing those calculations.

But, more importantly, every economist will tell you there is an externality from—there is a positive benefit to cleaner energy, which is that it avoids the externality associated with carbon emissions, sulfur dioxide emissions, all the other emissions that are associated with, in particular, coal but other forms of energy.

So an economist will tell you what we need to be doing is moving toward solar, wind, and other forms of energy that don't have those externalities associated with them.

Mr. NUNES. At $24 a megawatt.

Mr. ORSZAG. Again, I want to see the numbers before——

Mr. NUNES. I will be glad to provide those for you.

You know, in California, we have tried many of these, as you guys are now saying in the Administration, what you guys are calling "market-friendly cap-and-trade systems." I have heard you say that several times today. We tried these in California, and the current price per kilowatt in California is 14 cents a kilowatt. And I don't know if you know the unemployment today in California is over 10 percent—in my district, it is going to be close to 20 percent—largely because people are leaving the State in droves because of a number of things, but, most importantly, this energy cost, I think, is contributing to it.

My friend, Mr. Tiberi, here was telling me that in Ohio they are paying 3 cents a kilowatt, and they primarily get most of their energy from coal.

So, under this system—you know, California has tried these so-called market-friendly green policies—should Ohio look forward to paying closer to California's rate of electricity, or is Ohio going to stay the same, at 3 cents a kilowatt?

Mr. ORSZAG. Well, let me first say that the best example that we have on a national basis with a market-friendly cap-and-trade program is the one for acid rain, for sulfur dioxide emissions. It has worked very well. The costs are much lower than were initially projected when the program was adopted.

And so I think, if we are talking about a national cap-and-trade program, we should look at the examples that we have of national cap-and-trade programs like the acid rain program.

Mr. NUNES. Well, that one may be a better one to look at than the California system, because we have watched our price per kilowatt double in the last 6 years. And, you know, I am afraid of what is going to happen under this system that has already been implemented in California that I think is a living example: 40 million people, lots of problems, high unemployment, 14 cents a kilowatt for electricity.

Mr. ORSZAG. You have had a carbon cap-and-trade program in California for 6 years?

Mr. NUNES. Well, what we have had is we have had the renewable portfolio standard that is, I think, at 15 percent.

Mr. ORSZAG. That is a different thing.

Mr. NUNES. But it is all the same thing. It is all trying to cut down on greenhouse gasses. So what I am concerned about with here is—you said something earlier about hypothetical games and you don't want to play hypothetical games, but, you know, this is not hypothetical, what has happened in California. I mean, there are serious problems out there.

In fact, I would love to invite you out to my district so that you can witness what 20 percent unemployment looks like. My friend in Ohio has suffered from high unemployment also, but California is really a trendsetter in how to drive business out of the State. And it is largely due to these green policies that have been enacted in California, that, quite frankly, I don't see a lot of difference between what the Obama Administration is trying to do at the national level compared to what has been done in California.

Mr. ORSZAG. Again, I am going to just come back and say, I think if we invest in energy efficiency and we do this in a smart way, which we can, there is no tension between moving to reduce our dependence on foreign oil and improve energy efficiency and a highly efficient and high-performing economy.

Mr. CAMP. Would the gentleman from California yield for a second?

Mr. NUNES. Absolutely, Mr. Camp.

Mr. CAMP. Just for 1 second.

You know, sulfur dioxide is very different than carbon dioxide. It was a successful program because that is a U.S.-based problem, and a U.S.-based solution can impact that problem. Carbon dioxide is worldwide. A U.S.-based solution will not impact carbon dioxide worldwide.

Mr. ORSZAG. Well, it will have some impact, but I agree that the solution has to be global. I agree with that.

Mr. NUNES. I think, Mr. Orszag, that I will go on the record today that I think my friend from Ohio will be being more cents per kilowatt after this Obama plan is implemented. I will bet you dinner over that, a non-greenhouse-gas-polluting dinner, of course.

Mr. ORSZAG. I think, again, what we are trying to accomplish is reduced dependence on foreign oil, improved energy efficiency; and, part of that, to finance it in a fiscally responsible way while also dealing with what scientists have said is one of the biggest threats to our planet using a market-friendly——

Mr. NUNES. But will result in higher energy costs, as we have seen in California.

Chairman RANGEL. Well, let me say this to the gentleman. The inconvenience and, indeed, increase in cost to the consumer will not be considered by the Chair to be a Democratic-Republican issue. I am very concerned about what is happening in your State. And, therefore, we would be very interested to see how the program is working. So that, we will have enough time to discuss these things not by party label, but in doing the right thing, who is going to pay for it?

Mr. NUNES. Mr. Chairman, if I may, I would really encourage you to bring in some folks from California to testify before this Committee on some of——

Chairman RANGEL. I have a breathing problem, so I may have to pass on that, but we will work it out.

Mr. NUNES. Thank you, Mr. Chairman.

Chairman RANGEL. No, no. We intend to have informative—we are going to disagree with the Administration, we are going to disagree on facts and then do what you have to do politically. So the Administration has agreed to discuss with us, not for purposes of necessarily picking up a vote, but in trying to persuade you that what they are doing is the right thing. And we are going to take advantage of it, not necessarily in formal hearings, but for those who have an interest we will have an opportunity to discuss it. These are really serious national issues.

Mr. NUNES. Thank you, Mr. Chairman.

Chairman RANGEL. Okay. Ms. Schwartz isn't—the gentleman from—oh, Ms. Schwartz is here. You see my vision really is getting bad here. The Chair recognizes Ms. Schwartz of Pennsylvania.

Ms. SCHWARTZ. Thank you very much, Mr. Chairman.

I wanted to follow up on—I know my colleague asked a bit about comparative effectiveness, and I wanted to follow up on the health care issue. And let me first start by saying that I think this is a budget that does take very seriously concerns about our debt and about the deficit and really makes a clear statement about the kind of investments we have to make in the future, including in health care.

I don't think that we have yet, and I have heard most of this hearing, talked about the degree to which we are taking steps in this budget and building on the work we did on the Recovery Act to improve quality and effectiveness and to really move forward that debate about how we can spend public dollars more wisely and get more bang for the buck, so to speak. I know you talk about "bending the curve." I am trying to get used to that language a little bit too.

But the fact is that we have a commitment to Medicare. We are concerned about that; we want to meet that commitment to all of our seniors. But could you speak a bit more about, particularly, how you envision the health IT provisions and the $19 million playing out, in the sense of being able to enable the health care system to deliver health care in a better way, to be able to get that information to patients and to doctors and to hospitals so that they are providing the best possible care?

I know you spoke to comparative effectiveness, but if you could speak to that and also speak to other areas that you envision going forward under Medicare, other policy changes you think we might need to be making, whether it is in medical home primary care providers, other ways we might want to do some reimbursement changes to improve the effectiveness of the dollars that we spend, save those dollars and maybe be able to reinvest them in other ways.

Mr. ORSZAG. Sure. Let's start with health information technology.

Even before we get to quality and cost considerations, I think just the hassle factor needs to be taken into account. I think all of us, as patients, find it annoying, might be the right word, to have to continue to fill out form after form every time you go to a new doctor of information that you have already filled out somewhere else. And if it would be easier to make sure that all that information was accessible by authorized doctors, check the box, I would, for one, as a patient, love that.

In terms of the quality of health care delivered, we have roughly 100,000 people who die each year because of medical errors. We have significant problems in prescription dosages and other issues that arise.

Ms. SCHWARTZ. E-prescribing was something we did here.

Mr. ORSZAG. A lot of those quality problems can only start to be addressed if we actually have a modern system.

In every other sector of the economy, we have moved forward with information technology, and it has improved our lives, or at least it has made the aspect—I don't know that every advancement in information technology improves our lives, but it has certainly added to efficiency and made other sectors of the economy work a lot better.

That has not occurred in health care. It must. And the Recovery Act provides us a pathway to getting there.

Ms. SCHWARTZ. So do you want to give us any hints about what else you might be seeing? Things have been sort of broadly outlined in the budget that we can anticipate, in terms of changes that we might see either under Medicare or more broadly, as we look to be more efficient in health care.

And I would ask you to maybe—I think you did this a bit in answer to the comparative effectiveness—maybe some reassurance for both doctors and for patients that we are not looking—at least, certainly, speaking for myself, I am not looking for denial of care or limiting care. The idea is to get the best possible appropriate care in a timely fashion. I think there needs to be an understanding that that is what we are talking about, not necessarily denying care—or absolutely not denying care, going forward. I think that would be helpful, as we go into what is a change in the way we do some things.

Representing Philadelphia, we have some fantastic health care, but it is very fragmented. So your notion that it is really just repeating your vital statistics, but it is also making sure that—you may not be able to articulate exactly what your doctor said to you 6 months ago, but actually being able to have another doctor read that information might actually help you get the kind of health care you need that could well save your life or get a better treatment for you.

Mr. ORSZAG. I think that is absolutely right. We are not talking about cutting off treatments or preventing people from obtaining the medical care that they and their doctor decide upon. What we are talking about is making sure that doctor has the evidence to evaluate what is in the patient's best interest.

I think at heart, in too many cases, what the health care system delivers is, again, just either a sort of social norm that develops or inertia or based on history, rather than having the doctor have the ability to know more precisely what is in the patient's best interest. And that is the kind of system we need to be moving toward, while also providing the doctor or hospital a strong incentive to provide that high-quality care.

Ms. SCHWARTZ. Well, I look forward to working with you on all of this going forward, and I know the Committee does, as well. Thank you.

Chairman RANGEL. I call on Mr. Davis, the distinguished gentleman from Alabama.

Mr. DAVIS OF ALABAMA. Thank you, Mr. Chairman.

Dr. Orszag, I wanted to pick up on a conversation that was raging earlier before I actually came over here, the whole question of tax cuts.

I have been in the House for 7 years, not a terribly long period, and on this Committee for 3 years now, and I always hear a lot of passion extended from my friends on the Republican side on the question of tax cuts. But I always find that it is worth looking underneath that passion and getting a better sense of exactly what it is they really get angry about. So I wanted to spend some time doing that with my questions.

Focusing on people making less than $200,000 a year, which is the overwhelming majority of people who are part of the Tax Code right now in virtually every district in the House of Representatives, compare the amount of disposable income that people making under $200,000 a year were spending on taxes post-Bush tax cuts in 2001 and 2003 and prior to that.

Can you make that comparison, essentially—or, if it is not disposable income, whatever other metrics you think really gets to the heart of what I am driving at right now, essentially the tax burden on individuals of that level before Bush, after Bush. Can you make that comparison?

Mr. ORSZAG. Well, what I can say is the Making Work Pay credit will provide for 95 percent of working families a tax cut, which goes up to $800 per family. So, in terms of their disposable income, it is another $800 in their pocket, in addition to the other effects that will come through lower health care costs, a better education system, and what have you.

Mr. DAVIS OF ALABAMA. Well, let me get at the number this way. And I recognize you may not have the data, but I have seen it and want to see if you disagree with what I remember from the data.

I have seen data that indicates that, prior to the 2001, 2003 tax cuts, if you compare that timeframe to post-2001, 2003 tax cuts, there has been, if anything, almost no movement, static, flat line, between what families making——

Mr. ORSZAG. Oh, I am sorry, yeah. Their after-tax income—let me put it this way: After-tax income for the middle segment of the population has been roughly stagnant for too long now. Their income growth, their disposable income has not kept pace with the potential productivity of the economy, in no small part because—well, for several reasons.

One is health care costs have been eating into their take-home pay. But, more important than that, a disproportion and growing share of the income has been flowing to the very top. The top 1 percent of the population, 20 years ago, accrued 10 percent of the total income. It is now almost 25 percent.

Mr. DAVIS OF ALABAMA. And then let me add one other aspect to that. The effect of the 2001 and 2003 Bush tax cuts, in my district, something like 95 percent of the people living in my district get an average tax cut from the 2001 and 2003 cycle of somewhere between $45 and $50 a month. That number repeats itself in many districts around the country. So whenever I hear this very strong argument about the impact of the Bush tax cuts and how central they are to the economy, the health of the economy, I am always reminded of that fact.

Now, let me turn to carried interest. One of the things that this budget does is to restore carried interest to ordinary income levels, correct?

Mr. ORSZAG. Correct.

Mr. DAVIS OF ALABAMA. I always hear a lot of passion, again, extended on the other side of the aisle around the importance of taxing carried interest at a lower level. Just by way of reference, give me a ballpark estimate of what percentage of people who filed taxes last year took a carried interest deduction.

Mr. ORSZAG. Oh, my goodness, well under 1 percent. I mean, I don't have the exact figure, but a very small sliver of the population has carried interest. Think private equity managers, hedge fund managers——

Mr. DAVIS OF ALABAMA. And then, just to put that in perspective, people who do those things, manage private equity accounts and hedge funds, they are working, right? I mean, they are performing a service on behalf of others and engaging in some form of labor.

Mr. ORSZAG. Absolutely. And let's be clear about this. To the extent that those people invest capital in their business, the tax treatment is very clear: They will be taxed as capital income. Carried interest is all about compensation for labor services provided——

Mr. DAVIS OF ALABAMA. Compensation for giving advice.

Mr. ORSZAG. For giving advice or managing a portfolio.

Now, people say, well, it is performance-based. But the fact of the matter is, if you are a movie actor and you get paid a bonus based on how what the sales of the movie are, it is performance-based, you are taxed as ordinary income. If you are a worker at a firm, you do a great job, you get a bonus; taxed as ordinary income.

In time after time after time, even performance-based labor compensation is taxed at ordinary income. There is no tax justification for the tax break given to carried interest.

Mr. DAVIS OF ALABAMA. Dr. Orszag, my time has run out, but I would just end with this observation, that it is always fascinating to me, this enormous amount of passion extended every time we go to the floor on these debates about the Tax Code. In reality, it seems it is really passion on what effect the Tax Code has on a very, very narrow slice of Americans and constituents of the people who serve here.

Chairman RANGEL. The Chair recognizes Mr. Reichert from Washington.

Mr. REICHERT. Thank you, Mr. Chairman.

Thank you for your patience all day, taking our questions. I want to follow up on a couple of things.

I think we do all have a passion to make sure that Americans today take home more money, are able to provide for their families and continue to operate their businesses.

And you made a comment earlier about businesses, that there were two things that you wanted to do. One of those was to promote economic activity, and the other one was to promote this line of credit. And there is another $28 billion, I think you mentioned——

Mr. ORSZAG. Well, access to credit more broadly. That is one mechanism. Right.

Mr. REICHERT. Access to credit, right. So it just seems to me—and I am, you know, just speaking on behalf of the average American person who is not an economist—that if you have less taxes, you take home more money. If you are a business man or woman and you have less taxes, you take home more money, you put it into your business, or you put it into your family, or you put it in your pocket, you put it into savings.

So I just have a question about the capital gains language in the budget proposed. President Clinton acknowledged the importance of encouraging investment by signing into law a significant reduction in the capital gains rate in 1997—I am sure you know this—28 to 20 percent. But this budget moves it from 15 percent to 20 percent. And, as a result of that, you are increasing it, people take home less money, they are paying more taxes in their business.

Are you concerned that this proposal to raise the capital gains tax will discourage investment and, therefore, your first proposal here to promote economic activity will be slowed?

Mr. ORSZAG. Well, again, those tax changes don't take effect until 2011 and thereafter, first.

Second, we were proposing on the capital gains rate to return it precisely to the level that you referenced with regard to President Clinton, which, by the way, was a period of strong economic performance and strong market performance.

And then, finally, since you mentioned small businesses, the budget includes a proposal on capital gains for section 1202 businesses that would eliminate capital gains on stocks held in certain small businesses. So, to the extent that you are focused on small businesses, I wanted to emphasize that, not only are there no tax provisions that would affect small businesses in a negative way while we are trying to get the economy back on its feet and credit flowing again, but there is actually a proposal that will help small businesses through a zero percent capital gains rate.

Mr. REICHERT. Right. And that new zero capital gains rate, that is only applying to a small portion of the business world?

Mr. ORSZAG. It applies to small businesses that qualify under section 1202, correct.

Mr. REICHERT. Okay. And why do we carve out just this limited number of small businesses?

Mr. ORSZAG. Well, I think, more broadly, let's return to the basic question that was raised before, which is, how do we promote economic growth, and how do we do so in a fiscally responsible way in 2012 and thereafter?

I want to come back to the point that was raised earlier. All we are going is returning to the tax rates that applied during the nineties. When those tax rates were put in place, for example in 1993, there were predictions of economic catastrophe. Those predictions turned out to be quite wrong, if you look at what happened thereafter.

So the same rhetoric that is being applied to modest changes in the top two marginal tax rates was applied in the early nineties, and it did not—the facts did not serve the people who were making those assertions well.

Mr. REICHERT. Well, we are still raising taxes on businesses, though, and it seems to me that that would not promote economic activity but slow it down.

Mr. ORSZAG. Again, we are not affecting the vast majority of——

Mr. REICHERT. Let me move on to my second point. The $28 billion that you talked about—I mentioned this to the Secretary yesterday. I met a family, a husband and wife, Candy and Doug, who owned a business in the Tacoma, Seattle, area that went bankrupt here a few weeks ago. They went to their bank and wanted to get a loan, and this bank received $310 million of bailout money. They wouldn't loan the money to this family to continue their business.

This $28 billion and other moneys included in the budget for a second mortgage and credit incentive, would this help Doug and Candy, this budget? Are they going to be able to get some help here, now that they have already filed for bankruptcy, they have lost their business?

Mr. ORSZAG. Well, I think, again, the purpose of the Recovery Act to get that economy back on its feet and the purpose of getting credit flowing——

Mr. REICHERT. What can we do for Doug and Candy? That is what I want to know. They are out there. They are lost. They have lost their business, and they are going to lose their home. What can we do for Doug and Candy?

Mr. ORSZAG. What I was trying to say is to avoid that situation in the first place. Now, obviously, people are suffering. That is why we have acted so quickly to get the Recovery Act in place, to not only jump-start the economy but also to provide some assistance during that hard time.

But let's hope that Doug and Candy have the opportunity to start a new business, to go into some other field. But the best outcome would be to have avoided that in the first place, and, again, that is the purpose of the Recovery Act and getting credit flowing again.

Mr. REICHERT. I appreciate your answers.

Thank you, Mr. Chairman.

Chairman RANGEL. Also, I am very anxious to get a reduction of the corporate tax rates so that we can be competitive. Our major problem has been that we find very few people that are willing to go after those corporations, Republican or Democrat, that are taking unfair advantage of the tax system.

And if we can, as I tried to do with the last Administration, identify those corporations and industries, we can have a revenue-neutral corporate tax cut that can go from 30.5 to 30, 29, depending on how many people we are willing to drop, not as revenue losers, but—revenue losers, rather than that we are raising their taxes. So I will be anxious to work with you and see whether we can get some agreement.

We have back with us—we had Bob Etheridge, who has been with us all along. And we welcome you back for 5 minutes.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

And, Dr. Orszag, thank you for being here for this long afternoon. We really appreciate it.

I have privilege, as you know, of being on the Budget Committee and had the opportunity to listen to your testimony yesterday. And, as I mentioned then, the budget is more than just a document. It really is a statement of priorities, and I think, to a large degree, it is a moral document when we look at the investments we make. And I am very pleased that in this budget we are investing in education and energy and in health care and making those a top priority, because I think those are issues that the average person deals with. And you just touched on the issues of small business. That is sort of a backbone.

But let me ask you to comment a little more, because all these things we talk about, it is going to be very difficult to get there unless we have a well-educated citizenry. And the foundation of that starts, really, before those children show up at school, in a lot of cases, and preschool is critical. And once we get them through, they have to know they have an opportunity to go on to education beyond high school. Today, we are competing with the world, and, without those opportunities, they will never make it, and we will not be the leader that we want to be in the 21st century.

I thought when the Prime Minister spoke today, from Great Britain, he said something that I think we all ought to embrace. He said, "We are building tomorrow today." I would be interested in your comments, if you want to add to that.

Mr. ORSZAG. I could not agree more. The whole purpose of this budget is not only to deal with today's problems but to start building tomorrow today, in health care, in education, and in moving to clean energy.

Mr. ETHERIDGE. All right. In that regard, in building tomorrow today, we have to lay the foundation tomorrow to get there, and we are going to do that today.

Will you share with me and with the Committee and with others—I think the statement that this budget makes in Pell grants is a real step forward in how we are treating Pell grants for youngsters, and saying to them, "Not only are you important, but we are going to invest in you for years to come."

Mr. ORSZAG. Absolutely.

There have been two main problems in the Pell grant program, which, by the way, has helped millions and millions and millions of Americans go to college. But the two main problems have been that the funding is erratic from year to year, with last-minute changes in the amount and the eligibility and what have you, and that the form that one uses to apply for that aid, the so-called FAFSA form, is more complicated than the Tax Code. I think it has something like 120 or 130 items on it, which is particularly intimidating and unnecessary.

We want to do two things. We want to make the funding for Pell grants assured, so that someone in 8th grade or 9th grade will know that it will be there and, therefore, continue working hard in school and do the things that get you on the path to a college education. And then there is no reason that the application forms need to be intimidating and confusing. We wants to simplify them, again, to help moderate- and low- and middle-income kids aspire to college without unnecessary complexity.

I think a lot of kids today hear college costs $40,000 a year, there is no way I am ever going to be able to afford that, what is the point of even trying hard in high school? We need to change that dynamic so that those kids work hard, go on to college, and then stay in college.

Mr. ETHERIDGE. Mr. Chairman, the key, I think, in this is we are moving that from discretionary to mandatory. Let me tell you why I think that is important. Because, having served as superintendent of schools, a lot of youngsters drop out mentally before they drop out physically. And they drop out of school mentally because they really don't see where they can get to.

And I think this is a real step forward to say to youngsters even before they get in high school, because they make that decision maybe in the 7th or 8th grade, but all of a sudden now I am a counselor or teacher and I can say to a young person, "Here is what you can do." I think this will have real impacts if we follow this through, if we work with counselors, do what we ought to do. I can see a teacher right now working youngsters in 7th, 8th grade and say, "Listen, you have a chance. Now you straighten up, and here is where you can go." I think that is a real step forward.

I thank you for your time.

And I yield back, Mr. Chairman.

Chairman RANGEL. Thank you.

The Chair recognizes the gentleman from New York, Mr. Higgins.

Mr. HIGGINS. Thank you, Mr. Chairman.

Dr. Orszag, I just want to talk to you about cancer funding to the National Institutes of Health and the National Cancer Institute for research, prevention, and early detection.

A couple of things. One is, about 10 percent of cancer deaths are attributed to the original tumor. It is when cancer advances, when it moves, when it metastasizes that it becomes deadly. And that is why early detection is very, very important. Economically, it is a lot less costly to the Nation to treat cancer in its early stages than it is in later stages.

We have made incredible progress in the past 30 years. Thirty years ago, 50 percent of those who were diagnosed with cancer did not live beyond 5 years of their diagnosis. Today it is 65 percent for adults and 80 percent for kids.

Funding is critically important. Funding for cancer research spiked between the years 1998 and 2003 and has since stalled. And when you factor in inflation, we have lot about 17 percent for cancer research, prevention, and early detection in this Nation.

The President has rhetorically and in reality, based on his budget document and his comments and his address to the Nation, reaffirmed this Nation's commitment to the fight against cancer.

I can remember when I first came to serve in Congress, the American Cancer Society and the National Cancer Institute converged on Washington. And they were wearing these buttons that said "2015," and I inquired as to what it was. The goal of those two organizations was to eliminate—eliminate—all human suffering and death due to cancer by the year 2015. I know that there was some controversy within the cancer community as to whether or not that goal was achievable. And, obviously, it is not. But what is important, what is important, is that we are making progress toward that goal.

Can you talk about the President's commitment to eliminating or reducing cancer deaths and suffering in our time, as he has said? And specifically, what kinds of translational research will this new funding finance?

Mr. ORSZAG. Well, let me first say that estimates suggest that, by 2010, cancer will surpass heart disease as the leading cause of death globally. We need to address it.

The President is committed to substantially increasing funding for cancer research. The budget includes $6 billion for cancer research at the National Institutes of Health, which builds upon the $10 billion, a part of which will be undoubtedly dedicated to cancer research, that was provided to NIH as part of the Recovery Act.

So we have very substantial funding in this budget to try to attack the growing problem of cancer. And we are on a path to fulfilling the President's multi-year commitment to double cancer research.

Mr. HIGGINS. Great.

With that, I will yield back. Thank you.

Chairman RANGEL. Thank you.

I really want to thank the Members for your patience and the Administration for really sharing this information with us here.

And is Mr. Yarmuth here?

Mr. Meek from Florida?

Mr. MEEK. Thank you, Mr. Chairman.

And, Dr. Orszag, I want to thank you for being here today.

And I want to commend the Administration for doing something that we haven't done in a very long time here in Washington, D.C., especially from the executive branch, and that is to share with the American people the truth. And sometimes the truth, in some circles, may not feel as good to some Americans, as they start to look at what the budget was truly all about. When you have two wars going on and you have a number of other issues and emergency supplementals that are not in the document that we started off with at the beginning of the year, then they don't necessarily know how much money the Federal Government is actually doling out and how mismanaged it is.

I just want to point out one case, especially as it relates to the President's budget, in permanently extending and enhancing the child tax credit, which was in the Recovery Act but which you have put in your budget. Taking it down to $3,000 has included 20 percent of Floridians, I mean 20 percent of children that weren't covered or families that weren't covered. And this child tax credit is now covered by the very poor in Florida.

And I am very excited that the Administration has moved in that direction, because especially now in these very hard times, families that know what it means to punch in and punch out every day, some individuals that are really struggling in rural Florida, they need that tax credit, they need that assistance.

One of the things, Director, I want to talk to you about today, or ask you questions about, is accountability. We had the Treasury Secretary here yesterday. And one of my concerns was to make sure that, even though we have all of this vision, all of this change, all of this leadership, all of this hope that we have put out there on behalf of Americans, that we have the accountability tools in place.

As you know—and you have been in Washington, as we say in south Florida, for more than five or six mango seasons. I want to ask you, have we looked at how we can head off possible mismanagement, overspending in areas outside of the budget because of mistakes of a very few that will end up blossoming into something that we don't want, an auditor general's report that may come out and say that there has been an oversight of millions of taxpayers' dollars?

Point to the parts of the budget where the vision is there to make sure that we have the accountability measures in place before it reaches the auditor general's office.

Mr. ORSZAG. Sure. Let me first deal with the Recovery Act. The Administration has appointed Earl Devaney, a very well-known and tough inspector general, to head the accountability oversight board created as part of the Recovery Act.

We are also putting out the message, not only to the Cabinet but, more importantly, to Governors and Mayors—I spoke to the Governors when they were in town last week—that we need to make sure this money goes out not only quickly but wisely. And that means paying attention to accountability and transparency.

We have also launched a Web site, recovery.gov, that has been receiving—or, at least at the beginning, was receiving at least 3,000 hits a second. When the President mentioned it during the State of the Union, it again had a spike in activity. That underscores the interest in precisely what you were talking about, accountability.

Now, within this budget, I will point you—I think the most important thing that we are doing, in addition to the contracting reform the President talked about earlier today, we are investing significant sums in making sure that, for example, under Medicare, we don't pay money to a provider unless they are actually a provider providing that service to a beneficiary. There has been too much Medicare fraud that has occurred.

We are investing resources in the Social Security Administration to make sure that the right benefit goes to the right person at the right time.

All in, based on credible evidence in terms of how program integrity funds will work, the budget saves $50 billion in erroneous payments or erroneous tax credits that would otherwise have occurred, because we are paying so much attention to accountability and transparency.

Mr. MEEK. I think you are 110 percent right. And thank you. I will see an auditor general, inspector general. And it is very, very important before we get to the point of saying that there is a lot of waste that has taken place, it is usually a minority report by the Department, saying, "Well, this is our version of what took place," and we know that will happen under what we call regular order.

But I think the accountability end is what I am hearing back in Florida. Folks are saying, "Kendrick, you all are doing a good job responding to the emergency. It is not your emergency; you didn't create the fire." But they don't want the fire to spread into other areas.

And if you feel very comfortable or satisfied, as it relates to the approach, at the beginning—because, with the TARP funds, for instance, Mr. Paulson sat where you sat and assured this Committee and everyone else that we need these dollars, that we need the flexibility to be able to deal with the financial community, same thing that this Administration called for too, that it is important—I am closing, Mr. Chairman—that it is important that we have those police officers in place to, kind of, break it down to everyday talk, to make sure on a monthly basis they are checking in on these programs, they are checking in on things that we are doing. And I am glad that the Administration is going in and looking at the books of many of these individuals that are companies that are receiving these dollars.

I think the American people appreciate that just as much as they appreciate the response to the emergency.

Mr. ORSZAG. I agree.

Mr. MEEK. So I want to thank you for coming before the Committee. Looking forward to working on your proposed budget that the President has sent to the Hill.

Mr. BLUMENAUER [presiding.] Thank you.

Congressman Boustany?

Mr. BOUSTANY. Thank you, Mr. Chairman.

Dr. Orszag, this budget proposal rightfully gives recognition to the fiscal gap that we are seeing and how it relates to health care costs. And I applaud that; I think that is laudable. And, clearly, a lot of work needs to be done there.

It is unclear to me at this time, even though we have gone through this hearing and the hearing yesterday, as to how the $634 billion in that reserve fund will be used to actually bend that curve, bend the curve, as you have said, on health spending.

Now, in the course of this hearing, you have mentioned health IT. There are significant provisions in the stimulus package to deal with this. But, as a physician who has dealt with health IT at the ground level, I see some significant problems with the way that is going to be implemented. And that is something we can talk about later.

You also mentioned disease management, and, clearly, we need to do more there.

And the third area that you talked about was altering incentives for providers. And that is a complicated issue. And I would submit, also, that there is also a significant impediment in existing law that works against us in that area.

I also want to point out that, in 2007, you urged this Committee in a hearing to cut cost by linking Medicare coverage to cost-effectiveness analysis. And you said at that time, and I quote, "Determining which treatment was most cost-effective for a given population would involve placing a dollar value on an additional year of life," end quote. Now, as a physician with 20 years' experience, a heart surgeon, I find that disturbing. I find that comment disturbing.

You also urged Congress to rethink the need to permit Medicare coverage for, quote, "more effective but more expensive services," end quote.

Some of your previous comments seem to suggest a misunderstanding of the value personalized medicine. And, as we move toward an era where genetics will play a more important role in individual differences in the way medicine needs to be implemented with regard to a particular patient comes about, I find a disconnect here.

So I want to know, will this Administration do anything—what steps will this Administration take to guarantee that Medicare won't implicitly use cost data to deprive seniors and disabled Americans coverage for medically necessary care?

Mr. ORSZAG. Well, there are many aspects to your question. Let me start with—you said, what is in here that bends the curve? And let's talk about financial incentives for providers.

I think, well, I hope you would agree, I think the MedPAC, the Institute of Medicine, a variety of medical experts agree that readmission rates are too high and that many readmissions could be avoided.

Mr. BOUSTANY. Oh, there is no question about it.

Mr. ORSZAG. We have proposals to bundle post-acute care and hospital stays together to create stronger incentives for reducing those readmissions. We also have incentives that are directly targeted at readmission rates among hospitals.

We have incentives for physicians to form groups. Mark McClellan and others have put forward proposals to form accountable care organizations. We have a bonus-eligible organization, which has some differences but is spiritually aligned with that type of proposal.

And we can keep going down the list. But, basically, I do think that we are doing all the things that your colleagues and the Institute of Medicine and MedPAC and others have suggested would help to bend the curve.

Now, specifically, with regard to personalized medicine, I am fully in favor of personalized medicine. I think we need as effective and personalized a system as possible. But it is also the case—and I don't know what your experience has been like. I know, from my personal experience, as I mentioned earlier, that oftentimes that personalized medicine doesn't have enough information to deliver the highest-quality, most effective care possible. And I would like my doctor, along with everyone's doctor, to have more information about what is more likely to work for me——

Mr. BOUSTANY. Well, I would submit to you that the medical literature is replete with many, many studies in this area. But I guess I want to get back to the heart of my question, and that is, in dealing with the cost-effectiveness issue, I want to know what guaranties, what steps will the Administration take to make sure that this is not abused and cost will not used to withhold some types of care?

Mr. ORSZAG. Well, I don't think anyone is talking about cost alone. But let me just—because I do think it is crucially important. The Institute of Medicine and others have suggested a very large share, perhaps half or more, of the medical care delivered in the

United States, of that personalized medicine, the medicine that your doctor is recommending, is not backed by any specific evidence that it works better than an alternative.

So there is a large literature, but it often doesn't apply in, sort of, a detailed enough level to be informing your doctor in whatever recommendations the doctor is making. I think that is something that, at least if I were—I am not a medical doctor; I am a Ph.D.—if I were a medical doctor, I would sure want that kind of information so that I could provide the best recommendations I could to my patients.

Mr. BOUSTANY. Well, I think most doctors do. Most doctors do attempt that.

Mr. ORSZAG. They attempt it. The point is the information is not there for them to draw upon. And we should be more aggressive in providing that information to doctors and letting medical decisions be based on medical evidence.

Mr. BOUSTANY. I agree with that. But I think, clearly, there are ways that medical information is disseminated. And the, sort of, a top-down, potentially arbitrary approach could be problematic.

Mr. ORSZAG. Well, I don't think it will be top-down, but we could have a longer discussion about how it would work.

Mr. BOUSTANY. Thank you.

I yield back.

Mr. BLUMENAUER. Thank you.

Mr. Roskam?

Mr. ROSKAM. Thank you, Mr. Chairman.

Director, thanks for your patience today. And I would just like to follow up on Dr. Boustany's questions.

And I don't think we will probably come to, really, a clear understanding. You probably don't have the authority, you know, with all due respect, you would probably have to go back to the President and so forth. But, sort of, the signal flare that I think you are hearing from people, as it relates to the cost-effectiveness argument, is not the underlying premise that cost-effectiveness is a good thing to contemplate, but it is the nature of this council, these 15 Members, and what ultimately is the stick that they have.

And it was interesting to me when you were describing your own experience with your physician and then, in answering the question from Congresswoman Schwartz, you said, words to this effect, "We are going to provide doctors with the incentive to provide the very best care." Well, implicit in that is, sort of, the stick to make decisions if doctors aren't providing the very best care.

Could you describe to us, sort of, your understanding of how that works? Because if you are going to provide incentives, you have to be able to disincentivize bad decisions.

And let me ask you to specifically address a particular entity that exists in Europe that, at least according to the Wall Street Journal, is the entity that other countries are looking at as the blueprint here. And it is the——

Mr. ORSZAG. NICE.

Mr. ROSKAM. Yeah. So you are familiar with it.

Mr. ORSZAG. I am.

Mr. ROSKAM. Can you debunk, sort of, the NICE analogy? Because there is some bad stuff that happened there, and we don't want that to happen here. I could drag you through the bad stuff, but my hunch is you know it.

Mr. ORSZAG. Okay, completely different system.

Mr. ROSKAM. Great. What is different about it?

Mr. ORSZAG. In the United Kingdom, they have a government-run system, the National Health System, that the National Institute for Clinical Excellence, which is NICE, informs. That is not the system we have in the United States; it is not the system we will have in the United States.

But I think, coming back to the previous question, to your question about incentives, let's take the hospital quality incentive scheme, or incentives, that we have in the budget. The evidence suggests that the Premier Demonstration Project, applying to hospitals, has helped to improve quality by creating financial incentives for hospitals to provide higher-quality care rather than just more care. That is, spiritually, that is basically what we need to do.

Again, I don't see how we can tackle this long-term path that we are on if we just continue to pay for more care rather than better care. It doesn't mean cutting off, it doesn't mean rationing, it doesn't mean yes/no decisions. But we should create stronger incentives for higher-quality care.

Under the current system—let me actually put the point more bluntly. Under the current system, more efficient providers are often financially penalized because they are not doing more unnecessary procedures and tests and what have you. That makes no sense. They shouldn't have to pay a financial price——

Mr. ROSKAM. No argument here whatsoever.

Mr. ORSZAG. Okay, that is all we are talking about.

Mr. ROSKAM. I completely concur. But here is what I think is a danger that we, together, have to figure out. The danger is the implicit authority that goes in an agency that will have a lot of power, right? It is going to have your ear, it is going to have the President's ear. It is going to have a great deal of authority. And it will be, for lack of a better characterization, sort of the point agency that is going to be making demarcations. And it is going to be saying, well, we declare this as efficient; we declare this as a bad drug technology. And you can begin to imagine that there are people that aren't going to feel particularly well-served.

And the examples in England—this is not theoretical. This has happened. And so people with MS have felt like, "Hey, I need this drug therapy, but this agency says I can't have it?" That, I think, is part of the challenge—and you have a lot of challenges that you are dealing with—that is part of the challenge, moving forward, to make those assurances in place so that Americans don't feel roughshod or that 15 people are going to have a disproportionate amount of influence over the care of millions.

Mr. ORSZAG. I think we have a lot of areas of agreement in which—and I saw the doctor nodding his head, too—that some of the financial incentives we currently have are not helpful in creating incentives for higher-quality care.

I think we also can agree that we should be making sure that there is more information available, on a medical basis, for what works and what doesn't, so that we each can have the best information available, not only as patients but as doctors.

And I think we also could all agree that the course that we are on is unsustainable, so that we will have to work together to make the system more efficient.

Mr. ROSKAM. And I think we can further agree, wouldn't you, that we need to make sure that there are protections in there that protect that patient from getting something that they need and that it doesn't get bogged down in a bureaucratic fashion.

Mr. ORSZAG. Absolutely.

Mr. ROSKAM. I yield back.

Mr. BLUMENAUER. Congressman Pascrell.

Mr. PASCRELL. Mr. Chairman.

I think, Director, please pay attention—I know you are doing that—to what both sides of the aisle have said about the credit pipeline. Mr. Reichert from Washington and myself mentioned this yesterday to the Secretary. This is a critical point. It is not happening. It has not happened. I don't see any light at the end of the tunnel on this issue. So whether we are talking about the TARP, whether we are talking about recovery, whether we are talking about our budget, we have to get this moving.

I applaud the Administration for displaying its commitment to health reform. While you have done a great deal of work for us, we must still grapple to make up the difference between your blueprint and the price tag of reform.

Some have suggested changing the way we treat employer-provided health insurance. Many experts, including Robert Greenstein, executive director of the Center on Budget and Policy Priorities, have suggested that moving forward with health reform may require a dedicated revenue stream. Some have suggested modifying the current tax exclusion for employer-sponsored health insurance. Many have argued that capping the value of this tax exclusion will erode employer-sponsored health insurance, which currently provides health coverage to 61 percent of Americans under 65 years of age and is the most effective means of pooling high- and low-cost patients together.

Now, my question is this. I actually have two questions. Does the Administration support a modification of the current tax exclusion for employer-sponsored health insurance? How would you cap this tax exclusion, the effect that it would have on the employer-sponsored health insurance market?

And my followup question is, we must identify additional sources to make health reform a reality. I would encourage both the Administration and this Committee to think twice before we erode the tax treatment of employer-provided health insurance coverage. This kind of package may well leave us with a Pyrrhic victory, and a lot of people like it the way it is.

Mr. Director.

Mr. ORSZAG. Well, one of the principles that the President's budget includes is an emphasis on choice of health plans, including the option of keeping your employer-based health plan. That is specifically identified in the budget.

We also do have a gap in funding that we will need to work with you to fill, since this is a downpayment on reform but not a full funding source. Many people have put the health exclusion as one of the options on the table that could help to fill in that gap. But I think what I would like to say very clearly is I understand the concerns that have been raised about that proposal. It is not included in this budget. Other people have put it on the table. Part of the discussion that will have to occur over the coming weeks and months is precisely how to provide additional resources to an overall health reform effort.

Mr. PASCRELL. And where do you see that going? What is your opinion?

Mr. ORSZAG. I think it is premature at this point to be ruling in or ruling out anything.

Mr. PASCRELL. You don't have an opinion about it yet?

Mr. ORSZAG. That is not quite what I said. I said that I think it is premature to be ruling in or ruling out anything.

Mr. PASCRELL. Thank you, Mr. Director.

Thank you, Mr. Chairman.

Mr. BLUMENAUER. Thank you, Mr. Pascrell.

Mr. Tiberi.

Mr. TIBERI. Thank you, Mr. Chairman.

Mr. Orszag, last but not least, what was the national debt at the end of 2008?

Mr. ORSZAG. Publicly held debt at the end of 2008 was $5.3 trillion.

Mr. TIBERI. How about including everything?

Mr. ORSZAG. The gross Federal debt is not the concept that most economists use, but I will nonetheless give it you. Gross Federal debt was $9.99 trillion at the end of 2008.

Mr. TIBERI. What will those two numbers be at the end of your budget?

Mr. ORSZAG. Well, first, let me say, under the current policies that we are under, under current policies, they would be $2 trillion higher than under our budget. But because of the path that we are on and the legacy that we are inheriting, there would be an increase in debt under the budget. It is given in Table S–1. And, you know, I can read the numbers just as well as you can.

Mr. TIBERI. Can you go ahead and tell me? I can't find the numbers.

Mr. ORSZAG. Okay. Well, let me first start with the baseline projection of debt, if I have this. I guess I don't have that. But publicly held debt net of financial assets would increase from $5.3 trillion in 2008 to $6.9 trillion in 2009. That is because of——

Mr. TIBERI. Just give me the last number, the 2019.

Mr. ORSZAG. 2019 would be $13.8 trillion. And, without the budget, it would therefore be something like $15.8 trillion.

Mr. TIBERI. Wow. Does that stagger you?

Mr. ORSZAG. We are inheriting a very serious fiscal problem going out over time. We are addressing it by being honest and getting the deficits down to 3 percent of GDP so that debt is a common share of——

Mr. TIBERI. What are the deficits each year of those budget years?

Mr. ORSZAG. They are about 3 percent of the economy.

Mr. TIBERI. What is the number?

Mr. ORSZAG. The nominal number, which, again, is not the way economists typically look at it, is, 2013, it is $533 billion.

Mr. TIBERI. That is still a lot of money, whichever way you slice it.

Mr. ORSZAG. There is no question that it would be desirable—again, doing it honestly, not playing—I could make that number look a lot of smaller by playing all of the budget gimmick games that have been played in the past. But doing it honestly, it would be desirable to bring that number down yet further. But we need to realize that we are starting with a very deep fiscal hole, and we are working our way out of it.

Mr. TIBERI. You said something about the longer you wait to do something, the harder it is. In 10 years, my kids are going to face a national debt that is unbelievable and, essentially, deficits every year that are bigger than what we have seen in the last 8 years.

Mr. ORSZAG. But, again, $2 trillion less under the budget proposal than if we did nothing.

Mr. TIBERI. Let me talk about an article, an editorial that was in the Detroit News today and get your thoughts on it. This is today's Detroit News: "President Obama's proposed cap-and-trade system on greenhouse gas emissions is a giant economic dagger aimed at the Nation's heartland." I am from Ohio; this says "particularly Michigan." "It is a multi-billion-dollar tax hike on everything that Michigan does, including making things, driving cars, and burning coal." Michigan and Ohio's economies are very similar.

It goes on to say, "The President's budget projects receipts totaling $646 billion through 2019 through the sale of these greenhouse gas permits. The goal, according to the President's budget outline, is to reduce greenhouse gas emissions, such as carbon dioxide, to 14 percent below our 2005 levels by 2020. Doing so will drive up the cost of nearly everything and will amount to a major tax increase for American consumers." This is the Detroit News, not me.

I was speaking to a—not an investor-owned but a municipal-owned electric company, owned by the government, back in Ohio at the end of last week. And he said that, under this proposal, consumers in their service areas, electric rates will be double, will go up twice as much as they are now, just from this proposal, from nothing else.

My mom and dad are retired, Dr. Orszag. They will not get part of this tax cut, Making Work Pay, that you have said will help pay for this cost of electricity. They have lived below their means their whole life since they came to America on a boat. The gasoline that they put in their 14-year-old Buick will go up. Their electric will go up. Their natural gas will go up. What do I tell my mom and dad and people like them, that this is not a tax increase, this is something that will help us?

Mr. ORSZAG. Well, again, I am going to come back to: We face a choice. We can continue relying excessively on foreign oil and running a lot of energy-inefficient parts of the economy, or we can start to move toward a world in which we are reducing that dependence and moving toward cleaner energy.

Mr. TIBERI. Oh, I understand that. But this is going to be particularly hard on people in Ohio, in Michigan, in the industrial Midwest, and people who—some people, like my parents, who, again, have lived below their means, have not gone out and bought expensive cars or expensive homes, paid their bills, and suddenly this blue-collar, immigrant American now is looking at doubling of his gasoline cost, his house heating cost——

Mr. ORSZAG. Well, I think those projections are dramatically exaggerated. But I do think, again, we face a series of choices here. We face a choice with regard to our health care system. We face a choice with regard to our educational system, reducing costs and improving quality in health care, improving the quality of our education system. And we do face a choice on moving to a cleaner energy future. That is a choice that we face.

Mr. CAMP. Will the gentleman yield?

Mr. TIBERI. I will yield.

Mr. CAMP. I think if the choice is between clean coal and seniors, I will pick the men and women that are seniors in this country every time.

Thank you.

Mr. TIBERI. I yield back.

Mr. BLUMENAUER. Thank you very much.

Dr. Orszag, thank you for your patience and your stamina. It has been extraordinarily useful for us all, and we appreciate your courtesy.

Mr. ORSZAG. Thank you very much.

Mr. BLUMENAUER. We look forward to working with you.

Mr. ORSZAG. You, too.

[Whereupon, at 5:48 p.m., the Committee was adjourned.]

[Submission for the Record follows:]

Statement of Matt Lykken

I am the Director of SharedEconomicGrowth.org. I thank the Committee for the opportunity to submit this statement in response to the Administration's proposal to raise some $25 billion per year through, *inter alia*, "reform of deferral."

I am an international tax attorney with 24 years of government and corporate experience. I have worked for U.S. corporations in the U.S. and abroad, and for a foreign corporation following the acquisition of my U.S. employer. I have advised several foreign governments on how to structure their tax systems in a manner that would provide strong and secure revenue while at the same time encouraging investment. My colleagues in SharedEconomicGrowth.org are likewise tax attorneys of broad experience. As tax professionals and parents, we have become alarmed by the clear negative effect that the U.S. corporate tax system is having upon the U.S. economy. The current system discourages U.S. employment, inhibits repatriation of hundreds of billions of dollars, and strongly interferes with efficient investment. Further, compared with taxation of the same earnings at the individual level, corporate tax is regressive, imposing the same 35% levy on earnings allocable to the IRA of a minimum wage worker as it does on earnings allocable to a billionaire. The United States can no longer afford this efficiency burden. We seek to offer an alternative that is revenue neutral in the short term, revenue positive in the longer term, and helpful to the working, saving middle-income families who have been standing aghast as our government commits their hard earned money to helping the rich and the spendthrift.

A Right and a Wrong Way to Reform Deferral

The Administration is right to wish to reform deferral. Under the current system, a corporation can increase its after tax manufacturing profits by 54% simply by choosing to locate a plant in the Dominican Republic ("D.R.") rather than in the United States. Further, when the corporation then determines how best to invest $1,000,000 of that D.R. profit, it must consider that it can invest the full $1,000,000 if it does so in any country *except* the United States, but can only invest the after tax amount of $650,000 if it brings the cash here. Clearly, we should seek to alter this incentive. However, attempting to do so by simply taxing foreign earnings at

35% would have an extremely destructive effect given the existence of global competition.

The Wrong Way

The United States does not have a monopoly on technology, creativity, or capital. Virtually all U.S. multinationals have strong foreign based competitors. Those competitors are free to set up their plants in the D.R. and pay no tax, and under their home country territorial tax regimes they will never pay tax on those earnings. (As one example, Bayer AG in 2007 had tax expense of €72 million on income of €2,234 million).[1] In the global economy, shareholders demand an equivalent post-tax return from any corporation having an equivalent growth and risk profile. If a fully taxed U.S. corporation is forced to compete with an untaxed foreign rival, then, two things can be expected to happen. First, the foreign company may choose to compete on price, relying on the fact that it would only need to earn $65 of pre-tax profit to be equivalent to a 35% taxed U.S. rival earning $100. The U.S. company may not be able to make a reasonable profit in the face of that disadvantage, and may be crushed or seek to withdraw from the competition. This raises the second effect. If the D.R. operations would be worth $1,000 on a 0% tax basis, they would be worth only $650 on a 35% tax basis. Therefore, a 0% taxed rival could buy the D.R. operations of a U.S. parent without tax friction. In other words, it could pay $1,000 because the operation would be worth $1,000 to it, the U.S. seller would receive $650 after tax, and so both sides would be content. Faced with the choice between hopeless competition or a frictionless sale, which would the U.S. corporation choose? Could a 35% taxed U.S. corporation buy out its 0% taxed D.R. rival? No. Going in that direction, the fact that tax basis can only be recovered over time imposes a level of friction that would be impossible to overcome. Using a typical 15 year recovery period and a typical 15% discount rate, the U.S. company would be paying $1,000 for an operation worth only $796 to it. In short, existing foreign operations of U.S. parents would die or be sold, new operations would not be acquired, and U.S. based operations would labor under the burden of unfair price competition. Many U.S. corporations would be acquired by foreign rivals, with the consequent elimination of prime U.S. headquarters jobs and elimination of U.S. export operations, further aggravating our balance of payments. This is not a formula for American success.

The Right Way

This Committee will hear a number of proposals for corporate tax reform. They will have various known flaws. The Committee will be asked to lower corporate tax rates. That is an extremely prudent suggestion given that the U.S. tax rate is now a global outlier, but substantial rate reduction will increase the earnings lock-in effect and will bring back all of the personal income sheltering issues that were suppressed when corporate and individual rates were brought into harmony. The Committee will hear calls for conversion to the type of territorial tax regime used by essentially all of our trading partners, but that also has recognized issues. The Committee will receive radical reform proposals that raise the risk of a fresh "arms race" between tax planners and the government, losing the protection of a long tested system of extracting revenue. But there is one proposal that would eliminate the deferral problem in a manner that would *encourage* U.S. investment and *strengthen* U.S. corporations. It would make corporate tax shelter and transfer pricing issues a thing of the past. It would eliminate corporate cash lock-in and free funds for investment in the best opportunities available in the overall economy. It would drive true corporate transparency and accountability, reduce corporate power and "too big to fail" consolidations, and shift focus from mindless growth to solid profitability. It would reduce the hidden harvest of corporate profits by executives and give those funds back to the shareholders. It would improve the progressivity of the U.S. tax system and reward middle income savers, increasing the value of their hard-hit IRA and 401(k) accounts. It would do this in a manner that would be revenue neutral on a static basis, and strongly revenue positive in the future as increased after-tax earnings are withdrawn from retirement accounts. And it would do all of this with a three page bill, included here.

The Shared Economic Growth proposal is simply a corporate dividends paid deduction with the revenue offset at the individual shareholder level. The United States has always sought to achieve corporate integration by reducing tax at the shareholder level, a highly regressive technique that pleases large campaign contributors. Shared Economic Growth instead allows corporations to reduce their tax only

[1] *See* the Bayer 2007 annual report, page 98, available at http://www.annualreport2007.bayer.com/en/homepage.aspx.

if and when they pay out their earnings as dividends, and simultaneously taxes those dividends in the hands of the shareholders at full ordinary rates. Certain other changes to the system that are possible *only* with the introduction of a dividends paid deduction (i.e. not with a corporate rate reduction or shareholder level relief) make this work in a revenue neutral manner. Shared Economic Growth could be implemented in two alternative ways, offering a policy choice. Because a portion of corporate dividends flow to tax deferred savings vehicles such as IRAs and 401(k)s, there would be a current revenue loss. The version of the bill attached here assumes that this Committee would prefer to allow that deferral and to make it up through a levy on individual income over $500,000 a year equal to the individual employment tax levy that ordinary wage earners pay. Under this version, as the IRAs and 401(k)s pay out their enhanced earnings in the future, the government would harvest the $25 billion a year that the Administration's budget seeks. Alternatively, one could enact the proposal with a withholding tax that would hold tax deferred savings accounts neutral while still obtaining all of the incentive correction and efficiency effects and somewhat increasing progressivity.

Further information on the proposal can be found at http://www.sharedeconomicgrowth.org/home/summaryslideshow.html.

Given This Option, Enacting Destructive Changes Would Be Inexcusable

Shared Economic Growth is a viable option. It is simple. The static numbers are based on IRS Statistics of Income and Federal Reserve data and are valid. It is safe. It would strengthen the American economy, bring home hundreds of billions of dollars of corporate cash, and enhance the market power of American employees, all while satisfying the Administration's revenue requirements over time. With such an option available, there is no good reason to further damage U.S. stock values by even considering the destructive alternative of eliminating deferral. U.S. stock prices were falling on February 27 in response to the mere suggestion that deferral might be repealed. If U.S. stock values are suppressed for a prolonged period by such a hanging threat, it may do lasting damage even if deferral is never actually eliminated.

This is a critical moment in America's history, one where the choices made by Congress will determine whether our children will have a chance for a joyous and prosperous future or will be doomed to fight for their share of a wounded and diminished economy. I thank you for investing the time to ensure that you have thoroughly considered all of the options so that you may make the right choices for America.

A Bill

To amend the Internal Revenue Code of 1986 to remove incentives to shift employment abroad, and to remove hidden taxes on retirement savings and provide equitable taxation of earnings.

SECTION 1: SHORT TITLE

This Act may be cited as the "Shared Economic Growth Act of 2009".

SECTION 2: PROVIDING INCENTIVES TO LOCATE HIGH–VALUE JOBS IN AMERICA AND TO INJECT CASH INTO THE AMERICAN ECONOMY

(a) Part VIII of Subchapter B of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986 is amended by adding the following new section:

"251. (a) General Rule. In the case of a corporation, there shall be allowed as a deduction an amount equal to the amount paid as dividends in a taxable year of the corporation beginning on or after January 1, 2010.

(b) Limitation of benefit to tax otherwise payable.

(1) The deduction under this section may not exceed the corporation's taxable income (as computed before the deduction allowed under this section) for the taxable year in which the dividend is paid, decreased by an amount equal to 2.85 times any tax credits allowed to the corporation in the taxable year.

(2) Where the deduction otherwise allowable under this section in a taxable year exceeds the limitation provided in paragraph 1 of this subsection, the excess may be carried back and taken as a deduction in the two prior taxable years or forward to each of the 20 taxable years following the year in which the dividends were paid. However, the total deduction under this section for dividends paid during the taxable year plus carryovers from other taxable years may not exceed the limit provided in paragraph 1 of this subsection. Rules equivalent to those provided in paragraphs 2 and 3 of subsection 172(b) of this subchapter shall govern the application of such carryover deductions.

(3) No amount carried back under paragraph 2 of this subsection may be claimed as a deduction in any taxable year beginning on or before December 31, 2009. (c) Consolidated groups. In the case of a group electing to file a consolidated return under section 1501 of this Subtitle, the deduction provided under this section may be claimed only with respect to dividends paid by the parent corporation of such consolidated group."

(b) Subparagraph (b)(1)(A) of Section 243 of Part VIII of Subchapter B of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986 is amended to read as follows:

"(A) if the payor of such dividend is not entitled to receive a dividends paid deduction for any amount of such dividend under section 251 of this Part, and if at the close of the day on which such dividend is received, such corporation is a member of the same affiliated group as the corporation distributing such dividend, and".

(c) Section 244 of Part VIII of Subchapter B of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986 is repealed for tax years beginning after December 31, 2009.

(d) Subparagraph (a)(3)(A) of Section 245 of Part VIII of Subchapter B of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986 is amended to read as follows:

"(A) the post-1986 undistributed U.S. earnings, excluding any amount for which the distributing corporation or any corporation that paid dividends, directly or indirectly, to the distributing corporation was entitled to receive a deduction under section 251 of this Part, bears to".

(e) Subsection 1(h) of Part I of Subchapter A of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986 is repealed for tax years ending after December 31, 2009.

(f) Subsection (a) of Section 901 of Part III of Subchapter N of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986 is amended to read as follows:

"(a) Allowance of credit

If the taxpayer chooses to have the benefits of this subpart, the tax imposed by this chapter shall, subject to the limitation of section 904, be credited with the amounts provided in the applicable paragraph of subsection (b) plus, in the case of a corporation, the taxes deemed to have been paid under sections 902 and 960. However, in the case of a corporation, no credit shall be allowed under this section or under section 902 for foreign taxes paid or accrued, or deemed to have been paid or accrued, in tax years beginning after December 31, 2009. Such choice for any taxable year may be made or changed at any time before the expiration of the period prescribed for making a claim for credit or refund of the tax imposed by this chapter for such taxable year. The credit shall not be allowed against any tax treated as a tax not imposed by this chapter under section 26(b)."

This amendment shall override any contrary provision in any existing income tax convention.

SECTION 3: PREVENTING WINDFALL BENEFITS FOR FOREIGN INVESTORS

(a) Section 1441 of Subchapter A of Chapter 3 of Subtitle A of the Internal Revenue Code of 1986 is amended by adding at the end of subsection (a) thereof:

", and except that in the case of dividends, the tax shall be equal to 35 percent of such item."

The imposition of this 35 percent withholding tax on dividends shall override any contrary restriction in any existing income tax convention. This amendment shall apply with respect to any dividend to which new Section 251 applies.

(b) Section 1442 of Subchapter A of Chapter 3 of Subtitle A of the Internal Revenue Code of 1986 is amended by adding at the end of the first sentence of subsection (a) thereof:

", except that in the case of dividends, the tax shall be equal to 35 percent of such item."

The imposition of this 35 percent withholding tax on dividends shall override any contrary restriction in any existing income tax convention, except that any treaty limiting the imposition of U.S. tax on dividends paid from a U.S. resident corporation to a foreign parent corporation shall not be overridden where the foreign parent owns, directly or indirectly, at least 80 percent of the voting stock of the U.S. corporation and where the foreign parent is 100 percent owned, directly or indirectly, by a corporation whose ordinary common shares possessing at least 51 percent of the aggregate voting power in the corporation are regularly traded on one or more recognized stock exchanges. This amendment shall apply with respect to any dividend to which new Section 251 applies.

SECTION 4: FAIR FUNDING FOR RETIREMENT SECURITY

(a) Section 1 of Part I of Subchapter A of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986 is amended by adding the following new subsection:

"1(h) (1) (a) Tax imposed. There is hereby imposed a tax of 7.65 percent on so much of the adjusted gross income for the taxable year of that exceeds——

(A) $500,000, in the case of

(i) every married individual (as defined in section 7703) who makes a single return jointly with his spouse under section 6013;

(ii) every surviving spouse (as defined in section 2(a)); and

(iii) every head of a household (as defined in section 2(b));

(B) $250,000, in the case of

(i) every individual (other than a surviving spouse as defined in section 2(a) or the head of a household as defined in section 2(b)) who is not a married individual (as defined in section 7703); and

(ii) every married individual (as defined in section 7703) who does not make a single return jointly with his spouse under section 6013;

(C) $7,500, in the case of every estate and every trust taxable under this subsection.

(b) Credit for hospitalization tax paid. There shall be allowed as a credit against the tax imposed by this subsection so much of the amount of hospitalization tax paid by the individual with respect to his wages under subsection 3101(b) and to his self-employment income under subsection 1401(b) of this Title as exceeds the following amounts:

(A) In the case of individuals described in subparagraph (1)(A) of this subsection, $14,500; and

(B) In the case of individuals described in subparagraph (1)(B) of this subsection, $7,250.